PHD

The role and efficiency of regional development agencies in the United Kingdom and the Benelux countries

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Award date:
1988

Awarding institution:
University of Bath

<u>The Role and Efficiency of Regional Development Agencies in the United Kingdom and the Benelux Countries</u>

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for the degree of PhD

of the University of Bath

1988

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SUMMARY

This thesis, the research for which was carried out between 1982 and 1985 at the Centre for European Industrial Studies and funded by the University of Bath, has, as its objective, a wide-ranging investigation of the activities and achievements of regional development agencies in four EEC member-states, the United Kingdom, Belgium, the Netherlands and Luxembourg. As is indicated in the literature survey which forms part of the second chapter of the thesis, there existed, at the time this research was carried out, few published academic accounts of the operations of such agencies. Consequently, the first part of this work(Chapters 1,2 and 3)sets out to give a clear description of the agencies under study up to 1985, tracing in particular the political and economic circumstances of their establishment. In the second, analytic part of the work, various aspects of the agencies' composition are studied in greater detail, drawing upon both existing records and previously unpublished material, as well as personal interviews with Agency staff, politicians and local government officials. In Chapters 7 and 8, evaluations are made of the agencies' relative economic performance. Wherever appropriate, comparison is made between agencies under study.

In the concluding chapter of the thesis (Chapter Nine), factors common to the agencies studied are considered, and an evaluation is made of their economic and political role, both actual and potential, drawing upon the findings of previous chapters. Examples are also given of areas in which the agencies might benefit from study of each other's working methods.

Table of Contents

Chapter		Page No.
1.	Regional development agencies in the UK and the Benelux countries	1
2.	Regional development agencies - literature survey	50
3.	UK regional development agencies - a brief description	77
4.	Regional development agencies in the Benelux countries	202
5.	Regional development agencies - powers, functions and aims	296
6.	Regional development agencies - finance, structure and control	347
7.	Agency performance (UK agencies)	388
8.	Agency performance (Benelux agencies)	456
9.	Regional development agencies in the UK and the Benelux countries - conclusion	479

CHAPTER ONE

Regional Development Agencies in the UK and Benelux Countries

1. Introduction

On undertaking an analysis of regional development agencies one is immediately presented with problems of definition. In a recent survey of regional development agencies in Europe, Douglas Allen and Kevin Yuill state that, 'there is no undisputed definition of a regional development agency', before proceeding to offer their own, which covers 'any publicly - financed institution outside the mainstream of central and local government administration, having powers designed for the specific purpose of promoting industrial development (including non-manufacturing activities) in regions that are generally designated as problem or priority areas.'[1]

However, this definition, broad though it is, does not properly embrace certain of the agencies which it is the object of this thesis to study. Firstly, they are not all exclusively publicly - financed, indeed the degree of private sector financial support which they receive may serve as a useful measure of comparison. Secondly, the term 'outside the mainstream of central and local government' may exclude agencies which form part of a government department, or whose activities are closely supervised by a particular department. Finally, it is not the purpose of this study to limit the analysis of regional development agencies to those which operate in 'problem regions' as defined by national governments. One of the countries surveyed (Belgium) operates a network of agencies which covers the whole of the country, others operate in regions which, for various economic and political reasons are not recognised by central government as 'development areas'. Therefore, for the purpose of this study a regional development agency will be defined as 'an organisationally distinct body, created by a public initiative for the primary purpose of encouraging the economic and industrial development of a specified region'.

2. Regional Development Agencies - A Brief History

In the following section, an attempt will be made to trace the historical development of regional development agencies as instruments of economic change. This will take the form of a series of references to organisations bearing one or more of the characteristics associated with our definition of regional development agencies as they have manifested themselves in the industrialised countries of the West, over the past fifty years. It will therefore, be necessary for the narrative to move swiftly, at times from one continent to another, and consequently, it should be borne in mind that the pattern being followed is chronological, rather than one based upon spatial categorisations.

The most commonly-cited antecedent of the modern-day regional development agency is the Tennessee Valley Authority (TVA) in the Southern United States, which, in both its budget and staff resources, dwarfs the bodies which form the subject-matter of this study. TVA was created in 1933, as part of Roosevelt's 'New Deal' designed to revitalise the depressed American economy[2]. It embodied President Roosevelt's belief in the efficacy of national planning in developing under-utilised natural resources, and in that sense, predated postwar European thinking on regional policy, which saw it as a means of achieving increased national output rather than purely being a measure of social justice. Of its four statutory aims, three were concerned with specific measures such as improvements in the navigation of the Tennessee River and flood control programmes, the reafforestation and the proper use of marginal lands, and the reopening of an old explosives plant, but the fourth gave the TVA the general power to provide for the agricultural and industrial development of the valley[3]. This meant that the TVA had the capacity to develop into a comprehensive regional development authority, the organisation of which reflected its innovative, quasi-governmental status; in the words of Roosevelt himself 'a corporation clothed with the power of government, but possessed of the flexibility and initiative of a private enterprise'[4].

In line with its objectives of high level production of cheap power and cheap fertiliser, the TVA concentrated upon massive infrastructural projects such as the dredging of the river, and the construction of dams, flood-barriers and power-stations. Thus the nature of the task it undertook was, in terms of project-size, much greater than that of modern European agencies. The task was described by James Gober, chief of the Authority's Developmental Planning Section in 1980, when he stated that through the TVA an area four-fifths the size of England had been transformed over a period of fifty years 'from an agricultural to an urban society'[5]. In 1981, the TVA owned 29 power-producing dams, 12 coal-fired and 4 operating nuclear plants, which together generated 27,000 megawatts, half the installed capacity of England and Wales. In 1980 it received from the federal government an annual sum of $150 million, and employed directly 53,000 people. In the 1979/80 financial year, $3.2 billion was raised in revenue in the region to cover the costs of the electricity programme[6]. Therefore, it carries out functions, which in European countries, would be the responsibility of local authorities or national state corporations. Moreover, its industrial development functions have remained limited to the provision of industrial estates, and the attraction of inward investment. However, the TVA remains of importance to this study because of its public yet entrepreneurial character, its comprehensive approach to regional development, and its apparent success - population in the area rose in the first fifty years of its existence by 400% (from 220,000 to 875,000) and wages increased from 41% to 79% of the national average. For this reason both proponents and critics of European agencies have had cause to refer to it.

The demands which the entry of the United States into the Second World War made on heavy industry gave a great spur to the industrialisation of the Tennessee Valley area, with the construction of coal-burning electric plants to service the American atomic expansion programme. Similarly, in other countries, the War led national governments to intervene more directly in the workings of their economies, in order to guarantee supplies of essential materials. Consequently, they began to take steps to plan and regulate industry on a national and regional scale. In Britain for example, a government report published in 1940 (The Barlow Report) called for government action to disperse and decentralise industry, to create balanced employment within regions, and to redevelop congested urban areas[7]. The Report was followed by the setting up of the Department of Town and Country Planning in 1943, and by the Distribution of Industry Act 1945, and the 1947 Town and Country Planning Act, which introduced a system of Industrial Development Control certificates[8].

The influence of the TVA was also brought to bear in Italy, with the creation in 1947 of SVIMEZ ('Association for the Industrial Development of the Mezzogiorno') and in 1950, of the Cassa per il Mezzogiorno ('Southern Development Fund')[9]. Since the end of the War, American economic experts had been working alongside the Italian government in implementing Marshall Aid and, with the sluggish response of the South to the new injection of capital, the TVA presented a ready model for the Italians to emulate[10].

The Cassa was charged with the aim of making agricultural and related improvements in the South, the relative deprivation of whose population had long been recognised. However, the remit of the Cassa was limited because of the fear of hindering the expansion of northern industries, with their vital contribution to the readjustment of the balance of payments. The Cassa was to implement 'extraordinary interventions' in addition to existing government measures, and was to operate as a supranational authority, under a Committee of Ministers for the South. Its initial projects, dealing with irrigation, afforestation and land reclamation were justified as part of a 'pre-industrialisation process' by which social and physical infrastructure was developed as a precondition of the South being able to sustain industrial growth in later years. However, like the TVA, the Cassa expanded its horizons over time. Between 1951 and 1959, a series of laws were passed extending its remit into the field of industrial development, and the construction of public utilities. It also established interests in a number of 'Cassa - related' bodies, which included credit institutions, holding companies providing equity participation for private companies, and organisations supplying technical assistance to local firms and public authorities.

The history of the Cassa to the present day can be divided into a number of chronological phases, each relating to a separate period of government policy toward the South. For example, up until 1957, as has been shown above, policy tended to promote special public works, whereas between 1957 and 1965 the emphasis switched to measures of industrialisation, and between 1965 and 1970, steps were taken to co-ordinate projects within a framework of national economic planning. This has prompted one commentator to observe that the Cassa has proved 'a remarkably flexible instrument particularly responsive to...the shiftings of higher policy, and to changes in economic development theory'[11]. Its role is essentially a reactive rather than an innovatory one, and was defined in the 1950 legislation as 'the carrying out of the Mezzogiorno development plans laid down by the Committee of Ministers for the Mezzogiorno'[12]. This was subsequently amended to the carrying out of 'the central government's policies as set out in the five-year programme of the Interministerial Committee for Economic Planning (CIPE), and those policies requested by the Mezzogiorno regions, and approved by the Minister for the

Mezzogiorno'[13]. Again, like the TVA, its budget and resources are now far larger than those of the agencies to be covered in this study. In 1978/9 its expenditure was £1826.4 million (or 32592 milliard lire), and it employed 3400 staff. Its structure and activities, therefore, more closely resemble those of a government department[14].

During this early postwar period, many Western nations, like Italy, were faced with the twin aims of regenerating their industries for peacetime production whilst at the same time, ensuring a socially equitable spatial distribution of industrial resources. In the Republic of Ireland, the policy response to the objectives involved on the one hand, the creating in 1950 of the Industrial Development Authority and, in 1952, An Foras Tionscail, (the Industrial Institute). The former, which presently is one of the most prominent industrial development organisations in Western Europe was established to promote such development, in particular to attract foreign industry. The latter was made responsible for the promotion of industry in the underdeveloped areas, and was empowered to give grants toward the costs of industrial buildings and equipment. In 1969, as a result of the Industrial Development Act, the IDA assumed the responsibilities of An Foras Tionscail, and inherited broader powers, which included the building of factory space, the provision of grants and financial assistance for industry, and responsibility for the co-ordination of regional industrial development[15].

Legislation in 1958 had previously provided for the establishment of Gaeltarra Eireann (The Authority for the Development of the Irish Speaking Areas), whose primary aim was to promote the use of the Irish language in the Gaeltacht (far Western areas), through the provision of employment and the encouragement of economic development[16]. At first, Gaeltarra Eireann merely promoted the Irish government's 'Rural Industries Scheme', but its powers were extended under the Gaeltacht Industries (Amendment) Act 1965, by which it could take part in the formation of private companies, buy and sell shares and make grants. In 1980 Gaeltarra Eireann was reconstituted as Udaras na Gaeltachta, a body to which representatives of the Gaeltacht areas could be elected[17]. Reference should also be made to the Shannon Free Airport Development Company (SFADCo.), which came into being in 1959 to promote the attractions of Shannon Airport as a 'duty-free zone'[18]. This led to the creation of an industrial estate within this zone, and the construction of a New Town, all of which was supervised by SFADCo. The organisation currently has responsibility for the economic development of the Mid West region of Ireland, and operates in conjunction with the IDA.

All the organisations to which reference has so far been made, have with the exception of the TVA, and on a smaller scale, SFADCo., represented centralised methods of policy implementation. However, as will be demonstrated in numerous examples contained in this work, many regional development organisations have been linked with decentralising trends. This, it could be argued, represented the motive force behind the creation in France in 1955 of a network of Sociétes de Development Régional (Regional Development Companies). These private companies, formed in conjunction with the commercial banks and public financial institutions of Paris were to provide financial facilities for industrial enterprise in the regions, initially in the form of equity investment. As most such businesses preferred to increase their borrowings rather than their stockholders, the SDR's powers were extended firstly to lending money to companies in which they had equity holdings, and subsequently to any qualifying firm within the region. They have been described 'as quasi-banks to regional industrial enterprises'[19], and though their functions have increased over time, particularly with regard to the servicing of small and medium-sized businesses (PME's), they do not carry out regional industrial development on a broad scale. The main instrument of regional policy in France is DATAR (Délégation à L'Aménagement du Territoire et à l'Action Régional), which was created in 1963[20]. It is small, and in contrast to the SDR's, a highly centralised body which co-ordinates the regional dimension of policies implemented by government departments. In practice, it has also played a significant part in the formulation of regional policy. It is responsible for the administration of regional incentives schemes, but in structure and functions, it generally has little in common with the agencies in this study.

A prominent concern of many governments after the War was the attraction of foreign investment, and, as has been shown above, this responsibility often tended to devolve upon industrial development organisations. This is true, for example, of both DATAR and the Cassa. It is, therefore, appropriate to refer in this context to the Puerto Rican Economic Development Administration, known as Fomento, which was created in 1950, and combines factory building programmes with the offer of large incentives to incoming (mainly American) investors[21]. The Administration worked in conjunction with the Puerto

Rico Industrial Development Company, established in 1942 to build and run its own factories making bottles, paperboard and shoes. Because agencies such as Fomento are often to be found in competition with European agencies for large mobile investment projects (such as DeLorean) they are frequently grouped together in the public mind. However, a distinction should be made between such national industrial development organisations, and those which operate to promote regional economic development. The latter, which will form the subject-matter of this study, by promoting the industrial development of a particular region within a nation-state, invoke a series of questions of political, economic and cultural significance which are not raised in the same manner by bodies which operate at a national level. In certain cases, the distinction may not be clear-cut, for example, where a network of regional agencies are implementing central government policies, or where a national agency operates according to a set of predetermined regional priorities. Nevertheless, in general terms, national industrial development organisations, except where they operate on a specifically regional plane, will be considered to be outside the scope of this study.

The decades of the 1950's and the 1960's were, comparatively speaking, years of prosperity for the Western economies, interrupted only occasionally by recessionary phases such as that of 1958/9. Thus, pressures on governments to redistribute economic and industrial resources between regions eased. Nevertheless, there remained areas of economic deprivation which maintained an historical claim to special assistance. One such area, that of the Mezzogiorno, has already been mentioned, and a second was the Highlands and Islands of

Scotland. In 1965, as the culmination of some forty years of lobbying by various representatives and advisory groups, the United Kingdom government established the Highlands and Islands Development Board, and thus marked a significant departure from the structure of previous industrial development organisations. The details surrounding the creation of the Board are described below. It is sufficient to note here the comments of Geddes that its 'uniqueness and innovatory nature... as a regional development agency...has been widely noticed'[22] and Macallum, who saw in its creation 'another new step in regional economic development', having regard in particular to its 'unprecedentedly wide range of powers'[23]. It represented the climax of eighty years of government concern for the area, expressed through the creation of agencies such as the Congested Districts Board, and the Crofters' Commission. The idea of a Highland development authority had first been proposed in the 1920's, by the Scottish TUC, and the Scottish Liberal Party, and was subsequently adopted by the Scottish Labour Party in the early 1960's[24]. Its creation constituted an acknowledgement of the economic and social problems which had affected the area during a period of prosperity for the UK economy as a whole. The Board's objectives, as defined by legislation illustrate the two major preoccupations of central government policy at this time. The Board was set up 'for the purpose of assisting the people of the Highlands and Islands to play a more effective part in the economic and social development of the nation'[25]. In other words the government was responding on social grounds, to the plight of the Highlander, 'the man on Scotland's conscience'[26] as one government minister commented, whilst maintaining that the measure would be of benefit to the national economy, by developing the area's contribution to industrial output, increasing tax revenue, and reducing public welfare expenditure. Indeed, Warren argues that the setting up of the HIDB reflects a move away from the social bias of policy in favour of applying economic criteria to Highland assistance[27].

The Board was given the power to make grants and loans to a wide range of industrial, commercial and other undertakings, to acquire land, to build factories, service and maintain them, and to offer advisory and support services to businesses. In 1968, Parliament added the power to take equity shareholding in companies. Nevertheless, it was not until 1975 that agencies were established in other UK peripheral regions.

At this time in the United States of America, more conventional means were being employed to tackle regional problems. The Public Works and Economic Development Act of 1965, created an Economic Development Administration (EDA)[28] which built upon the success of its predecessor, the Area Redevelopment Administration (ARA), which had introduced the concept of providing economic development assistance to lagging regions[29]. The assistance took the form of 'technical assistance in planning, loans and grants for the construction of public facilities, and low interest loans to public business firms'[30]. In the same year 1965, another act established the Appalachian Regional Commission, the task of which was to co-ordinate a joint federal/state development programme[31]. The geographical remit of the ARC covers parts of some 13 states, and its operations are governed by a panel of representatives from each of those states under the joint chairmanship of a federal appointee, and an elected state representative. The task of the ARC is one of co-ordination and planning, rather than implementation, and its functions concern infrastructural rather than industrial development. The bulk of its expenditure has in the past been allocated to highway construction, and other projects have involved environmental reclamation, water resource development, educational programmes, and the provision of community infrastructure. Cumberland has described it as representing 'another unique stage in the pragmatic US tradition of creating new pluralistic institutions to meet specific regional development needs'[32].

The examples given above indicate that by the mid 1960's interest in regional policy questions was reawakening. It has been argued that this expressed the urgent need of capital to diversify into new markets, and locate production in areas with comparatively high labour reserves. Conversely, it could be claimed that it reflected the slackening of economic growth, particularly in countries such as Britain, where the Labour government had made regional policy a major priority. Although regional agencies in the UK have not customarily been considered directly as instruments of regional policy, in that they do not, with the exception of the Northern Ireland Industrial Development Board (IDB), created in 1982, administer the regional incentives schemes which form the backbone of that policy, it is instructive to consider their formation against this background. A number of commentators have identified periods during which regional policy was particularly forcefully applied by government[33]. For example, immediately after the War, with many firms anxious to reestablish and relocate, the government was keen to direct industry to peripheral regions. The impetus slackened during the 1950's as low levels of unemployment prevailed, but policy measures were revived following the sharp recession of 1958/9. The government traditionally used a 'carrot and stick' approach to the distribution of industry, offering the inducement of financial incentives for businesses setting up in designated development areas, whilst at the same time regulating development through the Industrial Development Certificates mentioned above, by which planning permission could be withheld from projects in non-assisted areas. The Labour government added a significant incentive in 1967 with the introduction of the Regional Employment Premium (REP), a subsidy of £1.50 per week per adult male employed in manufacturing industries in Development Areas. In apparent contradiction of the trend toward selectivity in the distribution of regional aid with which the HIDB, for example, was associated, REP was available automatically to firms operating in Development Areas, regardless of the nature of their business or their capital/labour ratios.

The Conservative government, elected in June 1970, favoured stricter control over regional expenditure, and the encouragement of industry in these areas through tax allowances rather than grants. Investment grants to Assisted Areas introduced by the Labour Government in 1966 were abolished, and replaced by depreciation allowances. However, as the economic climate deteriorated, the government was forced to recognise the political importance of the policy, and in 1972, it performed what has been described as a remarkable U-turn. The 1972 Industry Act which it introduced was 'the most comprehensive and most interventionist piece of legislation concerning government assistance to the private sector ever to have been passed in Britain', according to one economist[34]. It provided for reversion to the standard grants system and for a regional development grant which was to be paid at the rate of 20% in Development Areas on capital equipment such as plant, machinery or industrial buildings. The most far reaching measures, however, were contained in Sections 7 & 8 of the Act; Section 7 provided for discretionary government assistance to projects in the Assisted Areas, which either created or maintained employment. Under the terms of Section 8 assistance could be given to projects outside the regions, which improved productivity or updated products. It was by way of this clause that much assistance was to be paid out to rescue companies such as British Leyland and Rolls-Royce, large parts of whose operations were situated outside the Assisted Areas. This selective assistance was made available at the discretion of the Secretary of State for Industry, with the guidance of Industrial Development Advisory Boards, staffed by leading industrialists, on a regional basis. The 1972 Act provided the regional policy background in the context of which the remaining UK agencies were created, its greatest significance being its provision for industrial assistance to be awarded on a sectoral rather than purely spatial basis.

It was in Northern Ireland at this time that developments began to foreshadow those on the mainland in relation to regional development. As the result of a recommendation from a committee reviewing social and economic development in Northern Ireland, the Cairncross Committee[35], the government established in 1972, the Northern Ireland Finance Corporation (NIFC), which was empowered to provide financial assistance, in the form of equity investment and loans, to local companies[36]. The immediate motive behind the establishment of the NIFC appears to have been a desire to bolster Northern Irish manufacturing companies, which it was feared, would be adversely affected by the civil disturbances, which were at their height, at this time. Cairncross had expressed concern that the inward investment momentum built up during the 1960's would be lost without special aid. In the previous year, 1971, in the wake of the Bolton Report on the Financing of Small Firms, a Local Enterprise Development Unit (LEDU) had been established in Northern Ireland to promote and expand small local industries, employing not more than fifty persons[37]. LEDU was established as a limited company, funded entirely by the Department of Commerce, but free to take its own decisions within the framework of guidelines laid down by the Department. It seems a neat irony that the Unionists at Stormont in two of their final acts were providing public backing for industrial initiatives, whilst their Conservative colleagues at Westminster were attempting to reverse the process on the mainland. Nevertheless, these two interventions marked another stage in the trend toward selective intervention through regional government organisations which the UK government was presently to adopt. The Labour government which took power in October 1974, after the party had secured an overall parliamentary majority in the second General Election of that year, could not have been expected to temper in any way, commitment to traditional regional policy instruments in the way that the Conservatives had attempted four years earlier. Much of its electoral support was drawn from the Assisted Areas, and was under threat from the increased popularity of the Scottish and Welsh Nationalist Parties. Indeed those changes that did take place, it has been argued, were merely a response to such pressures. As Eirug comments, writing on the Welsh Development Agency 'little or no apparent thought had been given to the role of regional economic development agencies in Labour Party thinking up until 1974'[38]. He also quotes an executive director of the WDA, who noted that the setting up of the Agency 'had little to do with regional economic policies...It was borne out of reactions to the rise of nationalist feelings in Scotland and Wales.'[39]

The West Central Scotland Plan, initiated by the Scottish Office, and published in 1974, proposed a Scottish Economic Development Corporation (SEDCOR) with powers of direct intervention in Scottish industry[40]. The first official reference to development agencies occurred in a government White Paper on offshore oil and gas policy, which proposed the setting up of a Scottish Development Agency 'to strengthen...the instruments available from promoting the development of Scotland's economy...'[41] It also promised that a similar agency for Wales would eventually be established, contingent upon the development of oil exploration in the Celtic Sea. However, Welsh MP's were not keen to go into another General Election without a specific commitment to a Welsh Development Agency[42]. Consequently, in the next parliamentary session, following the issuing of a consultative paper, and discussions with representatives of the relevant bodies, the Scottish and Welsh Development Agency Bills passed through Parliament. They received the Royal Assent on 12 November 1975, together with the Industry Bill, which provided for the establishment of the National Enterprise Board. The hybrid parentage of the agencies can thus be clearly seen. On the one hand, they were presented as a form of administrative devolution, designed to assuage nationalist grievances, prior to the carrying through of legislative devolution. On the other, they were important constituents of Labour's National Industrial Strategy. Cooke analyses this strategy as attempting to regenerate the economy through four methods:[43]

i) sectoral performance evaluation.

ii) subsidised industrial restructuring.

iii) planning agreements

iv) direct agency investment ie. through NEB, SDA and WDA.

In order to carry out these tasks, the instruments of regional policy needed to be able to direct assistance more selectively. A parliamentary review of regional policy had concluded in 1973 that 'much has been spent, and may well have been wasted. Regional policy has been empiricism run mad, a game of hit-and-miss, played with more enthusiasm than success.'[44] It called for a more rational and systematic base for the formulation and execution of regional policy. Certainly, the creation of the Scottish and Welsh Agencies was considered, in some quarters, a radical departure from existing policy. As the bills setting up the Scottish and Welsh Development Agencies were introduced in parliament, the Industrial Development Officer of South Glamorgan County Council wrote that 'simultaneously in London, Glasgow and Cardiff, the government announced the death of 30 years of British regional policy. The traditional 'stick and carrot' method of attracting industry to development areas is being put away and regional and industrial policy will from now on go on the offensive.'[45]

The agencies were given powers which included making equity and loan investments in private companies, building, servicing and managing factories and industrial estates, reclaiming derelict land and carrying out safety-work on mineral-waste deposits, and providing technical and commercial assistance to industry. In the following year, the government disbanded the NIFC, and replaced it with a Northern Ireland Development Agency (NIDA), along the lines of its Scottish and Welsh counterparts, but with a more restricted remit[46]. NIDA which was itself to be replaced in 1982 by the IDB, was given the full powers of a comprehensive development agency. In 1977, the Development Board for Rural Wales (DBRW) was established to operate as the HIDB now did, within the geographical boundaries of another agency, but charged with the specific duty of stimulating the Welsh rural economy[47]. Like the HIDB, the DBRW also had a statutory responsibility for the social as well as economic development of its region. A rural development authority for Wales had long been a dream of Welsh nationalists, but the Board itself was primarily an amalgamation of two existing bodies, the Mid Wales Industrial Development Association (MWIDA) and the Newtown Development Corporation[48]. The manifesto of the Labour Party for the October 1974 election had promised 'a unified statutory authority...to use and develop the social fabric and economic resources of rural Wales to the full.'[49] However, with the setting-up of the WDA, it was thought by some that the activities of a rural development agency could be carried out within its framework. That the DBRW subsequently came into being was an acknowledgement both of the perceived inability of the WDA to carry out this task, and the political determination of the then Welsh Secretary of State, John Morris.

Following the establishment of these agencies in the UK, a number of English local authorities have created municipal enterprise boards, with powers to invest in local industry. The most notable examples have been those established in Greater London (GLEB), West Yorkshire (WYEB), and the West Midlands (WMEB)[50]. Within individual towns and cities, development corporations and enterprise trusts have multiplied in recent years, the former aimed at the attraction of inward investors, the latter at providing information and assistance for small business. Local authority initiatives have become more commonplace as the political pressures on the authorities to portray themselves as taking active steps to create jobs have grown in proportion to the growth in unemployment. As the activities of development corporations and enterprise trusts take place at a subregional level, they will not be discussed in the course of this work, but further reference will be made to Enterprise Boards, as within the regions in which they operate, they carry out significant industrial development functions. Attention will also be paid to the National Enterprise Board, the state holding company which, together with the Scottish and Welsh agencies formed a distinct arm of the 1974 Labour government's institutional framework by which industrial regeneration was to be encouraged. The NEB established two regional boards, in the north-east and north-west of England, but the 1975 Industry Act, under the terms of which the Board was created, did not allocate it any definite role in regional development[51]. Its main concern was selective state intervention on a sectoral, rather than spatial basis. Its attempts to integrate a regional element into its activities were prompted by the opinions expressed in certain regions of England that Scotland and Wales were, through the mechanisms of the Scottish and Welsh development agencies, receiving an unfair proportion of available government resources. 'The wide range of powers and enormous budget available to the Scottish Development Agency for industrial promotion were especially resented by politicians who found the Government's claim that equivalent powers and money were available in England through the National Enterprise Board singularly hollow.'[52] Eventually, in 1983, after the NEB had been stripped of most of its responsibilities, and subsumed together with the National Research Development Corporation (NDRC) into the British Technology Group (BTG), the regional boards were wound up.

Having considered in some detail, developments which led to the establishment of regional agencies in the UK, it might now be useful to discover whether or not these developments were paralleled in the rest of Europe.

In Belgium, provision for the establishment of agencies was made as early as 1970 under the terms of the Regionalisation Laws of 15 July 1970[53]. This legislation represented an attempt by central government to solve the constitutional problems which had arisen from long-standing regional divisions within the Belgian state. Belgium achieved independence from Dutch rule in 1830, and had always been divided by a 'linguistic frontier', running east-west across the country. North of this line, the people of the provinces of West and East Flanders, Antwerp, Limburg and Northern Brabant speak a local variety of Dutch known as Flemish. To the South, in Hainaut Namur, Liège, Luxembourg and Southern Brabant, the inhabitants, known as Walloons, are French-speaking. A third area, that of Greater Brussels, though in the Flemish sector, developed as a French-speaking enclave, and is now officially designated as a bilingual zone. These linguistic differences have been exacerbated by economic variations between the regions. Regional problems and policies in Belgium will be dealt with at greater length below, but it is necessary here to give a brief outline of their history, in order to place in context the creation of regional development agencies.

Wallonia became an industrialised region long before Flanders, which was, in the late nineteenth and early twentieth centuries a 'peasant-supported, low-wage agricultural economy'[54].

Consequently, Wallonians produced higher levels of per capita output, and enjoyed correspondingly higher standards of living. However, since the Second World War, the position has been completely reversed. The staple industries of the Wallonian economy, coal and steel, have experienced a significant decline in manpower. In two provinces, Liege and Hainaut, employment in the coal industry declined by over 90% during the period 1953-1973. Since the 1930's, the Wallonian population has increased little, whereas that of Flanders has grown by approximately one million, and now constitutes 55% of the national population. Since the War, the Flemish economy has developed rapidly, benefiting from the State-inspired modernisation of the economy, which took place during the 1960's, and also from a programme of regional incentives, under the Regional Expansion Laws of 1959 and 1966. In 1967, per capita income in Flanders surpassed that of Wallonia for the first time. According to F J Gay, writing in 1975 'in recent years 75-90% of foreign industrial investment in Belgium has been devoted to Flanders'[55]. These above-mentioned factors amounted to what another commentator referred to as 'a potentially volatile combination of a sharp reversal in relative prosperity linked to continuing linguistic and cultural antagonisms.'[56]

Hence, following the recommendations of a government commission, measures of decentralisation were introduced in 1970, which included the creation of three regional economic councils (CER's), for Flanders, Wallonia and Brabant[56]; these councils were each to consist of 50 members drawn from the Belgian parliament and the provincial councils, as well as employer and trade union representatives. Also established under the Law of 15 July were the Office de Promotion Industrielle (OPI) and the Bureau du Plan (Central Economic Planning Office)[58]. Finally, the existing provincial councils were empowered to set up regional development companies. The companies (SDR's - sociétés de développement régional) were to study methods of economic development, to draw up 'inventories of needs' (inventaire des besoins) for their own regions, to advise and co-ordinate the sectoral aspects of the national 5-year economic plan, and to provide financial assistance for industry, where support was not forthcoming from the private sector. The creation of agencies in Belgium was not, therefore, intended to solve the difficulties of specified 'problem' regions, but represented part of a process of administrative devolution, involving all regions. In fact, the Flemish and Wallonian councils executed their remits in slightly different ways, in that whilst five agencies were created in Flanders, reflecting both the heterogeneous nature of the Flemish economy and the existence of economic councils in each of the provinces, which could be converted into SDR's, only one, covering all five provinces, was established in Wallonia. The seventh agency created was the Société de Développement Régional de Bruxelles (SDRB), covering the Greater Brussels area. These agencies did not become operational until the mid-1970's, partly because of the constitutional complexities involved in the setting up of regional institutions in Belgium, but also because of the impetus provided by the sharply worsened economic conditions which resulted from the oil crisis of 1973.

Also established in Belgium during this period was the Fondatione Rurale de Wallonie, which in 1975 began advising on co-ordinating the integrated development of rural areas in Wallonia[59]. Since 1978, the FRW has been funded by the Belgian Ministry for Wallonian Affairs, though it also receives funds from private sources.

In contrast to the position in Belgium, agencies have been established in the Netherlands only in areas which the central government considers to be in need of special aid. There exists in the Netherlands a long history of physical and spatial planning, which originally focused on the interrelated problems of controlling the growth of the Randstad, and protecting the prime agricultural land of the area[60]. This was in turn closely concerned with regional policy, particularly as one proposed solution to these problems was the dispersal of population to growth-centres in the depressed regions. In 1956, a government report suggested that autonomous industrial growth should be encouraged in the regions, to act as a counter to the expansion of industry in the Randstad area. The government of the Netherlands, therefore, pursued a vigorous regional policy (see below) throughout the 1960's and early 1970's with the objective of implementing national planning goals. The decision to set up development agencies was perceived as part of that trend, noted above, toward greater selectivity in the allocation and distribution of regional aid, and also a recognition of the special problems of particular areas, which could not be solved by conventional regional policy measures alone.

The first agency was established in 1974 as the Noordelijke Onwikkelings Maatschappij (NOM - Northern Development Company), covering an area previously designated the Northern Development Area, and which included Groningen, Friesland and Drenthe. In the following year, the Industriebank Limburgs Instituut Voor Ontwikkeling en Financiering (LIOF - The Industry Bank of Limburg's Institute for Development and Finance) was set up to serve Limburg, another area with a history of special assistance[61]. As far back as 1934, a company had been formed to give financial assistance to businesses in the area, as a response to the problems of the coal industry. Between 1965 and 1975, the Limburg coalfield was run down to a state of closure, with the loss of 45,000 jobs. As a response, in 1966, the whole of South Limburg was designated a Reconversion Area. Other agencies have been established in Gelderse (GOM) and Overijissel (OOM) and a further one is planned for North Brabant. Yuill has shown that the seven provinces which are served by the agencies each have a lower per capita income than the other Dutch provinces[62]. There are differences in the range of powers and breadth of functions of the four existing agencies, and this will be dealt with in greater detail below.

Finally, in this section, it is necessary to make reference to developments in this field in the Grand Duchy of Luxembourg. It is difficult to compare the institutions of this country, the size of which is roughly equivalent to that of the English county of Kent, and whose population numbers approximately 350,000, with those of the other Western European nations. Indeed, the economic problems which Luxembourg has faced in recent years bear closer resemblance to those of certain regions within other countries, than to those of the countries as a whole[63]. These problems stem from Luxembourg's dependence on one main industry, that of steel, which suffered a severe structural crisis during the mid 1970's, as a result of declining demand from Western markets and increasingly competitive supplies from the newly industrialised countries. Steel production in Luxembourg is dominated by ARBED, a group of companies which, together, form the fourth largest steel-makers in Western Europe. In 1977, ARBED established, in Luxembourg, a 'Division Anti-Crise' (Anti-Crisis Division) to provide alternative forms of employment for redundant personnel[64]. In the following year, as part of this Division, a 'Département d'Industries Nouvelles' (New Industries Department) was created with the aim of attracting new investors to the Grand Duchy, and assisting them, wherever possible, to set up business. The Department employs only three full-time staff, and is funded from within the ARBED organisation. It is therefore, substantially different from the other agencies in this survey. The factors which led to its creation may therefore be expected to differ also. As a large-scale employer within the Grand-Duchy, ARBED can be seen to have been fulfilling its social responsibilities in establishing the New Industries Department, whilst at the same time making a useful public relations gesture. At the same time, it has a financial interest in persuading incoming investors to occupy some of the premises which it has vacated as a result of its restructuring programme. Furthermore, ARBED relies heavily on the good will of the Luxembourg government as a major concern operating in a small country. For its part, the government has taken 1000 steel-workers on to its programme of 'general works in the public interest', and is guaranteeing from 20 to 80% of their wages[65].

It is not easy to reconcile the New Industries Department with our earlier definition of a regional development agency. In only the broadest sense can it be described as a public initiative, the Luxembourg government having, somewhat reluctantly, taken a 20% stake in ARBED (Luxembourg) to provide emergency capital during its recent difficulties. It does not pursue industrial development functions on a broad scale, but only as they relate to the servicing of incoming investment projects. Neither does it operate to the benefit of a specific region within the Grand Duchy, though, at a national planning level, Luxembourg is divided on a spatial basis, into the declining agricultural sectors of the North and East, and the heavily industrialised cantons of the South and West. It must, however, be borne in mind, that in a country of this size, many of the functions customarily associated with a regional development agency can, as conveniently, be carried out by the relevant department of the central government. As the only independent organisation in Luxembourg carrying out these quasi-developmental functions, the New Industrial Department merits consideration of greater length in a subsequent chapter.

Regional development agencies - theoretical perspectives

In the preceding section, the historical development of the regional development agency has been outlined by reference to the various organisations concerned with regional economic development which have been established in the countries of Western Europe, and North and Central America. One conclusion which may be drawn from this study is that the creation of those organisations did not appear to follow any set pattern, rather each example tended to be tailored to the political needs of its creators, and the specific nature of its task. Such 'ad hoc' development does not lend itself readily to incorporation within a general theoretical framework; however, it is to such a framework that attention must now be paid, if a general explanatory analysis of regional development agencies in modern Europe is to be achieved. A number of differing theoretical perspectives, within each of which the concept of regional development agencies can be accommodated will be presented, and where appropriate, criticised. Finally, a brief effort will be made to identify ways in which the agencies themselves perceive their role.

i) 'Reformist' Theories

The arguments outlined below have been grouped together under the title of 'reformist' theories, because they each take as their starting point the need for government intervention to make good perceived weaknesses or faults in the operation of the market, which have resulted in regional inequalities. They thus differ from the arguments of social market economists, whose goal is the unhindered working of the market, and the Marxist perspective which anticipates the complete collapse of the market system.

The social-democratic governments of the UK and Benelux countries, which, in the mid 1970's established a number of regional development organisations generally based their programmes on 'reformist' arguments, even if they tended to explain their actions by reference to pragmatic goals rather than ideological perspectives. In the United Kingdom, for example, development agencies were seen by the Labour government of 1974-79, as a means of providing investment capital which the private sector could not (or would not) supply to the depressed regions. As J R Davies wrote in 1978 'the case for the SDA is based on the argument that private institutions and market forces have failed to solve the problems of the Scottish economy.'[66]

The agencies were, nevertheless, to accept the discipline of the market, and their officers were continually at pains to make it clear that they would not support companies which they considered commercially unsound, 'we are emphatically not in business to support lame ducks' the Chief Executive of the WDA explained in an early article on the Agency's modus operandi[67]. This attitude was echoed by his SDA counterpart, in oral evidence to the Wilson Committee in 1978: 'we are not about cases that do not have the reasonable prospect of profit and viability.'[68]

Effecting improvements in the regional economies through limited government intervention was also the concern of those who saw in the agencies a means of improving methods of policy delivery by making them more responsive to and aware of local needs. Their viewpoint was summed up by Mawson and Miller: 'a development agency ought to have the freedom to act outside of the day-to-day political and bureaucratic constraints of government; to focus on the problems of the indigenous sector rather than continue to rely on inward mobile investment; and to enter into financial arrangements suited to supporting long term developments in place of the vagaries of annual Government budgeting requirements.'[69]

For others, however, activity within regions at the micro-level could never provide a long-term solution to the problems of regional imbalance. Small firms in these areas would always be prey to the unfair competition of leading companies located in the Central belt. To achieve a proper balance of industry within regions, it would be necessary to harness the power of these multi-product, multi-company and multi-national enterprises which make up what Holland referred to as the meso-economic sector[70]. The state must, through the mechanisms of planning agreements with private companies, and the taking into public ownership of leading industries, direct investment in growth sectors into the depressed regions. The role of regional development agencies in this context is to act as state entrepreneurs, maintaining equity investment in leading companies within the region, and making their own contribution to job-creation by starting up companies on their own initiative. These were the arguments out of which Labour's National Industrial Strategy of 1974-75 was formed. The reasons why they were not translated into practice during the government's remaining four years in office will be touched upon in a later section of this work.

ii) 'Social market' theories

One question which may naturally arise from the above description of the theoretical underpinnings of Labour's National Industrial Strategy, is that of how regional development agencies, as an integral part of that strategy, came to be assimilated into the programme of the radical Conservative administration elected in May 1979. The Thatcher government did not accept the quasi-corporatist arrangements by which the economy had been managed by governments of varying political hue over the previous fifteen years. It propounded an anti-statist philosophy which regarded the growth of the state sector as having placed a burden on private enterprise, and removed resources from it. This philosophy was reflected in its policy toward the NEB, which lost both its separate identity, and the bulk of its powers, including that of making investments at a regional level. The regional development agencies, however, though issued with revised guidelines for operations, which reduced to a subsidiary role their investment function, were not abolished. During the 1983 General

Election campaign, the government praised the work of both the SDA and WDA, and by 1986, the former Conservative Secretary of State for Trade and Industry was able to reflect that whilst 'at one time it was legitimately feared that the SDA would become an agent for state ownership and unacceptable state intervention. That risk has been removed... it is now regarded as indispensable right across the political spectrum in Scotland'[71].

From what has been noted of the agencies' functions above, they may not be expected to fit in readily with the 'private sector' philosophy of the Conservative government. They can, however, be reconciled with the government's belief in the concepts of the 'social market economy', according to which the role of the state consists in the creation of a market order, in which individuals are free to pursue their objective of capital accumulation. As Gamble comments, in outlining the social market philosophy 'a minimal state does not mean a weak state. On the contrary, the state has to be strong to ensure the conditions in which a free economy can work. That means confronting and transforming all those institutions and interests which currently stand in the way.'[72] The Conservative Campaign Guide for the 1983 General Election declares the aim of government industrial policy to be 'to remove, wherever possible, obstacles and burdens imposed on the private sector.'[73] The agencies, in the carrying out of functions such as the provision of factory space for incoming investors, assisting small businesses with financial, technical or legislative difficulties and landscaping the environment can, according to the proponents of this theory, been seen to be 'removing obstacles' and creating a market order. According to social market theory, regional economic imbalances will, in time, be corrected by the workings of the market (such as changes in wage-differentials between regions, and labour migration) provided that obstacles to the free working of that market are removed. A Government White Paper on Regional Industrial Development published in December 1983 stated that 'imbalances between areas in employment opportunities should in principle be corrected by the natural adjustment of labour markets.'[74] This statement was qualified by the admission that these processes alone could not overcome present regional imbalances, and it would appear that current UK government thinking is that agencies are useful tools in the modernisation and diversification of the economic base in regions which have been held back by the dominance of traditional industries and work practices. The agencies are frequently described in this context as 'catalysts' of development, undertaking the initial groundwork which makes projects attractive to the private sector. For example, in the industrial property market, a sector traditionally controlled by government in Assisted Areas, the agencies now operate frequently in partnership with private companies, guaranteeing rents and providing infrastructure, but charging commercial rents, in order that the market is not depressed, and other private sector initiatives discouraged.

In his publication for the Centre for Policy Studies 'Second Thoughts on Regional Policy', Hallett gives a clear idea of the role of a regional development agency, as perceived by a market economist[75]. The investment function, operated with buy-back options for invested companies to guard against 'creeping nationalisation' can fill gaps in the financial markets caused by rapid sectoral or spatial change. A publicly-subsidised land renewal programme can provide societal benefits; factory-building in favourable locations may attract industry to ease the problems of areas suffering sudden employment decline. Promotion of the area concerned may bring to the investing public new information about its locational advantages. All in all, the type of intervention provided by such an agency to 'ease the tensions of economic change' would be 'very different from the traditional socialist preoccupation with the virtues of state monopoly and the evils of private enterprise.'[76]

iii) Neomarxist and other related perspectives

This title refers to those theories which interpret the state's role in regional development as being geared to the assisting of capital in the process of accumulation or profit-making. In their most straightforward form, these ideas present regional development agencies as state-sponsored agents of economic restructuring. Their creation reflects the particular form of state intervention most beneficial to private capital during the current phase of economic development. Before the Second World War, state intervention was most commonly made through the municipal enterprise, such as the direct labour organisation, or the water authority, which ensured that private enterprise was supplied with essential infrastructural requirements. To follow the analysis of Minns and Thornley there then followed a period of nationalisation of leading sectors of the economy in order 'to provide low-cost material inputs for the production of manufacturing commodities.'[77] In recent years, a modified form of state enterprise, that of state shareholding has emerged, entailing less financial commitment from the state, and less frequent need for recourse to legislative sanction. Furthermore, the state does not have to become involved in the day-to-day running of the enterprises concerned. Minns and Thornley studied the equity portfolios of the HIDB and NIFC and concluded that their role is to provide, on a selective basis, the necessary inputs for the financial restructuring of viable private companies. Though the HIDB and NIFC were set up as part of a policy aimed at minimising the disruptive effects of regional unemployment disparities, the policies of the agencies, they conclude, 'are concerned chiefly with securing profitable schemes or enterprises, regardless of their regional location.'[78] The drawbacks inherent in this analysis appear to be, firstly, that equity investment represents only a small part of regional development agencies' work, and secondly, that if their concern is primarily with the servicing of capital irrespective of spatial considerations, then it might be expected that in countries such as the United Kingdom and the Netherlands, operations would not be confined to 'problem' regions.

Similar arguments have, however, been made to explain the regional significance of the agencies' activities. They have, as mentioned above, been associated with the trend toward selective, as opposed to automatic, assistance for capital locating in the regions, in that they have operated a policy of discretionary intervention, as Cooke has described it, intervening on behalf of the state in the economy of the region to provide adequate supply factors for inward investors, such as financial and infrastructural assistance, local labour force quiescence, and state and private sector participation in new ventures[79]. The creation of such agencies, according to this explanation, can only represent a temporary compromise between the interests of capital and those of organised labour, and thus in their operations, they express a dual or contradictory nature. They legitimise the process of state-supported economic restructuring, through special provision for depressed areas and vigorous promotion of the region as a location for mobile investment, whilst at the same time promoting efficiency, by way of increased productivity, the rundown of 'uneconomic' industries, and the reduction of wage-costs. Examples of this process can be seen in the granting by government of £48 million to the WDA to develop industrial sites in areas affected by its programme of steel plant closures, and the provision of £10 million to the HIDB for economic development measures in the Invergordon district, following the closure of the local aluminium smelter. As Morgan remarks 'the WDA can, by its very being (including building and investing as an integral part of its being) legitimise the very pit closures, or steel shutdowns, or whatever, that its existence depends upon.'[80]

In O'Connor's work, regional development agencies are portrayed as symptomatic of a crisis of the State caused by its commitment to the furtherance of capital accumulation[81]. In order to carry out this function, the state must make certain expenditures. On the one hand, there are social expenses, such as welfare programmes, which are aimed at maintaining social consensus and harmony. On the other, there are social capital expenditures which can be subdivided into two categories, social investment, such as vocational training courses, which increase the productivity of individual workers, and social consumption expenditures, which encourage individuals to join the labour-force, and can take the form of pension schemes, or sickness benefits. However, whilst the state is providing these massive subsidies for private capital, the monopoly or meso-economic sector is absorbing the profits resulting from it. This creates a fiscal crisis, or structural gap between state revenues and state expenditures. The only way in which the state can overcome this problem is to increase its own efficiency, and encourage increases in monopoly sector productivity. This can be done partly through the mechanism of regional agencies which are already involved in the disbursement of large amounts of social capital, but which can encourage the monopoly sector to participate in such projects, and can attack both the finance and welfare problems of the modern sector by using the technology and capital-intensive methods developed by monopoly business. This particularly complex analysis has been founded upon the experiences of postwar American federal governments, and can be criticised for its underestimation of the ability of the state, in opposition to powerful interest groups, to limit its expenditures, and increase taxation revenues. However, many of its tenets have been adopted by Neomarxist academics in their studies of UK agencies.

iv) Decentralisation and devolutionary trends

It is a common assumption to link the establishment of regional development agencies to the process of devolution. In reality, much depends upon the structure of the organisation concerned, its accountability to central government, or alternatively to the regional electorate, its capacity to innovate or simply to react, and its source of funding. In Britain, regional development agencies can be said to be agents of the decentralisation of government, only in their inherent demonstration of regional identity. As will be discussed in greater detail below, they represented only an afterthought in the devolutionary programme of the 1974 Labour government, owing more, it was said, to 'pork-barrel politics' than to a genuine desire for constitutional change[82].

Nevertheless, a case can be made for the placing of regional development agencies within a general theory of the political disintegration of the nation-state; a theory which takes account of the political horse-trading mentioned above. The theory of internal colonialism was first presented as an alternative to the traditional 'diffusionist' model of regional development, which has been mentioned in connection with social market theory[83]. It was adapted from studies of Latin American States and applied to the countries of the 'Celtic fringe' of the United Kingdom in a seminal work by Michael Hechter. In it he argues that these countries (Wales, Scotland, Ireland) have, over several hundred years, been subject to the economic and cultural domination of the English state. Economic differences between the English core-regions and the Celtic periphery can be explained by the continuing economic exploitation of the periphery, which manifests itself in the classic syndrome of a peripheral economy dependent on external markets, possessing a narrow economic base and suffering a high rate of external migration. The root of the relationship between core and periphery, however, is contained in the cultural division of labour, whereby members of the periphery are excluded from positions of power and responsibility in the core. This cultural discrimination perpetuates regional differences as manifested in language, religious observance and voting patterns.

It does not necessarily imply conscious discrimination against peripheral representatives as individuals, but, as the periphery is disadvantaged in terms of income, employment opportunities, housing and education, the average member of the periphery competes with his or her counterpart within the core at a disadvantage in many free-market situations. There may be attempts by the peripheral elite to attract new investment and other resources to disadvantaged regions, but the inevitable failure of such measures to achieve full regional parity will only serve to stimulate nationalist demands.

The only way in which the relationship can be balanced is by way of state intervention, which in turn is dependent upon a strengthening of the political power of the peripheral group. In the context of the UK, the resurgence of Scottish and Welsh nationalism in the late 1960's and early 1970's can be said to have exerted pressure on the state to intervene to restore regional parity, and to change the distribution of national resources. The creation of the Scottish and Welsh Development Agencies can be interpreted as such a concession, which could be regarded as significant in view of the traditional role of the core capital, London, as supplier of credit and investment funds. Similarly, in Belgium, a revival of regional antagonisms, and consequently of the fortunes of separatist parties, preceded legislative moves to establish a network of regional development agencies.

Criticism of the theory of internal colonialism has centred upon the conditions which it predicates, namely that members of the periphery are discriminated against at high levels within the core, and that the peripheral economies exhibit the characteristics of dependent economies noted above. It has been suggested that the number of Scots, Irish and Welsh persons to be found in positions of seniority within English industry and government service cast doubt upon the first premise, whilst the diversified nature of the Scottish economy, to take one example, contradicts the second.

v) Corporatism

There occurred during the late 1970's an outpouring of theorisations on the corporatist nature of liberal democracies. Though academics could find no agreement in defining the concept of corporatism, much attention was focused upon the Labour government's National Industrial Strategy of 1975, of which regional development agencies were an important component.

Katzenstein describes corporatism as 'the voluntary co-operative regulation of conflicts over economic and social issues through highly-structured and interpenetrated sets of political relationships by business, the unions and the state, augmented at times by political parties.'[84] This principle of tripartite organisation was one upon which the governing assemblies and boards of regional agencies in the United Kingdom, Belgium and the Netherlands were founded. According to corporatism theorists, under corporatism, representatives of the state, labour and employers, instead of competing for national resources through the pluralist system, agree to act together at national level to achieve certain goals. Labour and employers representatives are granted a share in government in exchange for the acceptance of wage restraint on the part of labour, and direct state intervention in business on the part of employers[85]. In the case of the Labour government of 1974-75, however, their commitment to state intervention through planning agreements, and the taking into public ownership of leading sections of the economy was never fulfilled. Neither the National Enterprise Board nor the regional development agencies attempted to incorporate employer and trade union representatives in their decision-making processes, which were primarily responsive to the demands of the market.

As a result, the concept, outlined by Holland and discussed above, of government and the meso-economic sector of industry coming together to undertake planned investment in the depressed regions was never brought to fruition. In the late 1970's, in the UK, the idea of incorporating the trade unions within the policy-making process was abandoned, and the government sought to reduce the visible presence of the state in the spheres of industry and employer/worker relations. A corporatist explanation of regional development agencies, therefore, appears more appropriate to the circumstances surrounding their formation than to their current operations.

vi) Regional development agencies' self-perceptions.

Finally, in this section, it may be helpful to consider the way in which the regional development agencies themselves perceive their functions, as expressed in the public pronouncements of their officers, and through analysis of the promotional and other material which they produce. One commentator, arguing from a Marxist perspective, has explored this theme in relation to the HIDB, and what he refers to as their official discourse, or 'cultural practice'[86]. He argues that official Board sources are used to disseminate a particular set of views, which form a Board 'ideology', and which put forward certain specific interpretations of Highland history and development. 'The HIDB presents its own role through official discourse partly in traditional social-democratic and pluralist terms, partly in more technocratic terms. Thus it is an arbiter between conflicting social interests, though also an apolitical dirigiste institution standing above regional society.'[87]

This use of technology to override social and political conflict, and justify public policy, has also been noted of the Irish Industrial Development Authority[88]. C G Morgan, using a similar approach to that of Geddes in examining the output of the WDA concludes that the ideology which it promulgates interprets Wales' economic status as a product of deterministic factors, and views Wales as a 'basis for economic exploitation by different industrial sectors.'[89]

As noted above, the UK agencies, from their earliest days, emphasised that their investment function was primarily concerned with profit-making companies, that is, it was determined by market criteria. The late Ian Gray, when chief executive of the WDA, made this point in an article to which reference has already been made, in which he wrote that 'in deciding which projects to support we shall be considering both the likely return on capital, and the contribution the investment makes to the Welsh economy.'[90] Speaking in a similar vein concerning investment policy before the Wilson Committee in 1978, the then chief executive of the SDA, Lewis Robertson declared that 'we...do not interpret jobs as the only, nor even the immediately dominant consideration that we must have regard to.'[90] Though the agencies tend to see themselves providing a complementary function to the private clearing banks, they do not totally exclude social criteria from their remit.

Nevertheless, Eurig cites an executive director of the WDA who describes the Agency as 'basically an industrial property developer, a kind of merchant bank-cum-investment house, and a major land reclaimer,'[92] and in an oft-quoted phase Ian Gray compared the Agency's investment policy to that of a 'rather adventurous merchant bank',[93] a remark which echoes Hallett's description previously cited.

There is little evidence that the agencies regard themselves as part of a devolutionary process. They accept that their operations are conducted within a unitary political and economic structure, though the HIDB and DBRW (MWD) are frequently involved in performing advocacy roles on behalf of their respective regions. The WDA's Statement of

Programmes and Policies argues that 'to a very large extent, the economic problems of Wales and those of the United Kingdom as a whole, and the main long-term issue in economic development is the same, namely the means by which the average level of efficiency and competitiveness of industry and services, particularly in overseas markets, can be increased.'[94] Such statements lend support to the views of those who see the main role of the agencies as being the restructuring of industry as part of a national policy. Certainly, the agencies present one of their prime concerns as being 'to improve efficiency and competitiveness by encouraging modernisation and better methods of production.'[95] This is, in turn, related to the principles of selective intervention, outlined above; according to the SDA 1984 Annual Report 'in close partnership with Scottish industry, the role of the Agency is to act as a catalyst. Its prime function is to ensure that the opportunities which exist in all sectors of the economy are grasped and developed.'[96]

It can be concluded that the UK agencies in their public pronouncements follow the lead of central government policy-makers in projecting their role as that of instruments of change, encouraging the restructuring of capital at a regional level, along the lines of the WDA's claim that 'the long-term development of the economy of Wales will depend essentially on the continuous generation of new businesses, products and processes, and the modernisation, expansion and adaptation of existing enterprises.'[97]

The Benelux agencies, possessing differing structures and functions, yet perceive their activities in similar ways to the UK agencies, though they place greater emphasis on representing regional interests. The Dutch agency, LIOF, puts forward its main responsibility as being 'to promote and develop on its own initiative, all activities relevant to the industrialisation of the province of Limburg.'[98]

Other agencies stress their functions in terms of the collecting and dispensing of information, and liaising with other organisations. OOM describes itself as 'a one-source, comprehensive information bank' and an 'independent, trustworthy and specialised mediator' between business and government.'[99] Similarly, in Belgium, the SDRB advertises itself as 'the ideal intermediary between the various public authorities and private firms or individuals in need of assistance in economic or town and country planning matters.'[100] The separatist pressures out of which regional development agencies in Belgium were created (see above) may also have influenced their mode of operations in that they provide a focus for championing their region's cause. A representative of the GOM-Antwerpen has written that 'apart from studying and promoting regional economic growth, the GOM's also promote regional welfare in general...defending the interests wherever necessary of the regional companies, trade unions, institutions and local authorities.'[101] It may well be worth exploring in a subsequent chapter whether or not the stress which the Belgian and Dutch agencies lay on their impartiality and autonomy represents a real as well as a perceived difference between them and their UK counterparts.

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CHAPTER TWO

Regional Development Agencies - Literature Survey

Academic study of regional development agencies is at an early stage, reflecting the fact that their real growth did not take place in Western Europe until the mid-1970's. There is consequently not a considerable body of literature on the subject. Of general texts published, by far the most comprehensive is that edited by Douglas Yuill[1] of the Centre for the Study of Public Policy at Strathclyde University, and arising from the European Regional Development Agencies Project (ERDAP), carried out by the Centre, and funded by the Scottish Economic Planning Department (now Industry Department Scotland). A highly structured format is used to describe selected agencies from each of nine European Community countries; the descriptions are preceded by a general chapter drawing out particular areas of comparison. As the stated aim of ERDAP was 'to produce factual information on the operation and function of the main regional development agencies in the countries of the European Community'[2], the work of Yuill and his fellow contributors is descriptive rather than analytical. Nevertheless, a number of points of interest are made in the opening chapter. For example, the great diversity of the agencies covered is noted; in almost all areas outlined, levels of expenditure and staffing, internal structures, and breadth of functions, cross-national differences become apparent. Similarly, reasons for establishment tend to be country or even agency-specific. However, most agencies were found to be dependent on the state for the bulk of their budget, and accountable to a government ministry; this regardless of their relative location on the public/private sector continuum, which Yuill identified as another useful method of comparison. The major trend in the brief history of the agencies he considers to have been their policy shift from the attraction of inward investment to a greater concentration on the development of indigenous industry.

Also embracing the European dimension, but rather more broad in the scope of its subject-matter is Keyser and Windle's study of public enterprise in the EEC[3]. In its six volumes, it details the extent of state activities in each of the European community nations. In a work of such range, regional development agencies are given only passing coverage. Their research is summarised in a report compared by Keyser, Stares and Windle[4] for the Swedish Department of Industry in 1978, in which the authors argue that regional development agencies 'appear to reflect both a growing disillusionment with the results of generalised national policies of regional assistance and a response to the intensification of the problems of regional unemployment that occurred since the beginning of the present recession.'[5]

The role of UK regional development agencies has been covered by Mawson and Miller in a paper on the emergence of local and regional economic development agencies in the 1970's[6]. They see regional development agencies as having been conceived as a flexible, non-bureaucratic response to a recognised special need (that of combating economic decline in Wales, Scotland and Northern Ireland). They claim that regional development agencies reflected the general trend of regional policy toward selective assistance and indigenous industrial development. Despite their failure to fulfil certain expectations and a lack of resources sufficient to affect significantly the economic problems that they confront, Mawson and Miller believe that the future of such agencies is assured, because of the continuing economic difficulties of the regions they serve, and the potential adverse reaction to their abolition.

Butt Philip analyses UK regional development agencies with particular regard to their long-term job-creation potential[7]. However, his research was carried out at a time when the Scottish and Welsh Development agencies were still adjusting to their roles, which complicated the drawing of definite conclusions on performance. He does, nevertheless, put forward an argument that has become a major theme of subsequent studies, that 'politically, these bodies cannot afford to do too little or to lose too much money by trying to do too much,'[8] whilst warning that little could be expected of them in terms of new jobs or industries for some years to come.

On the development of the agency, or non-departmental body, as part of the UK governmental system, C C Hood has attempted to devise a typology that embraces regional development agencies[9]. He considers four sets of explanations for the growth of agencies, the most plausible of which he considers to be managerial theories and political theories. Managerial theories suggest that agencies are best equipped either to perform business-type tasks, tasks which require flexibility and initiative, or alternatively, routine tasks which can safely be allocated to non-elected bodies. Political theories have suggested that the agency can be used as a means of co-opting trade union and business support for potentially controversial interventions by the state (eg National Enterprise Board) or to carry out central government policy in the face of uncooperative local authorities. However, he concludes that there is no satisfactory single-factor explanation for the growth of agencies.

Scottish Development Agency

Much of the work carried out on the SDA has been primarily descriptive. Kirwan[10], Robertson[11] and Hood[12] and Young can be placed in this category, though all have judgements to make on aspects of the SDA's activities. Hood and Young provide an excellent view of the Agency's work in each of Scotland's major industrial sectors. In an introductory chapter, the Agency is described within the general framework of industrial policy at the Scottish level, and at the book's conclusion, a number of hypotheses are discussed with regard to its future role. Hood and Young see the role of the SDA as being "both the prime mover and the delivery mechanism for much of the 'Scottish dimension'"[13] of government industrial policy "an implementing and enabling body"[14]. They believe that the SDA would benefit from a reallocation of its resources away from area-specific urban projects into sectoral activity, and call for increased liaison between Industry Department Scotland and the SDA.

Industrial investment was described by Lewis Robertson, then Chief Executive of the SDA, as "potentially the most creative, and possibly the most contentious"[15] of the Agency's functions. Consequently, it has attracted considerable printed comment, including that of

Robertson himself, who described the purpose of industrial investment as the improvement of the balance of the economy through the encouragement of modern, science-based industry, whilst at the same time modernising and restructuring traditional industry. Finnie[16] has emphasised the Agency's flexibility in investment and commitment to working with the private sector, which can to some extent 'shelter' behind the Agency's willingness to support 'high-risk' projects. However, Davies[17] has pointed out that the effect of Agency investments on the problems of the Scottish economy can only be marginal. He rejects the Agency's criteria for investment, arguing that the stress given to commercial viability is paradoxical, as the case for the setting-up of the SDA had been based upon the inadequacies of the market. The SDA, he maintains, should use its investment policy to pursue social objectives such as employment creation, without aiming for a commercial rate of return. Similarly, the Scottish TUC believes that the industrial investment role of the Agency has not evolved as originally envisaged, that is, with a commitment to intervention in order to regenerate the economy[18]. The SDA's view of their industrial investment policy, as it stood in 1978, is outlined in minutes of evidence submitted to the Wilson Committee in that year[19]. The other area of great interest to those Wannop described as 'agency-watchers'[20] is that of area projects, an aspect of the SDA's work which has developed rapidly in recent years, notwithstanding the lack of statutory direction relating to it. Wannop[21] sees this development, by which the SDA has agreed to co-ordinate a set plan of industrial initiatives with other bodies, in specific localities, as part of a switch in the emphasis of regional policy at national level from new towns to the regeneration of existing urban sites. This argument is further developed in an article by Wannop and Boyle[22]. Spatial priorities, they argue, were not evident in the early years of the Agency's operations, notwithstanding the Agency's co-ordinating role in the Glasgow Eastern Area Renewal (GEAR) project. Area projects resulted from the 'failure' of investment policy and represented an opportunity for the government to respond to local pressures, whilst at the same time conforming with a general trend of transferring resources from regional to inner city initiatives. However, this argument is specifically challenged by Gulliver[23], who believes that area projects were adopted by the Agency because they represented a better way of "delivering" Agency "products" such as factory space, infrastructural investment, and business advice.

The forerunner of area projects, GEAR, has attracted a considerable amount of academic study. Much is critical (for example, Nairn[24], Booth, Pitt and Money[25], Orton[26]) arguing that the changes brought about by GEAR have been cosmetic, or even that they would have occurred without the SDA-co-ordinated programme, which they believed owed much to the need for a political public relations exercise in the area. Others, such as Donnison[27] have seen GEAR as an innovative urban renewal project, pointing the way for future inner-city policy. Leclerc and Draffan[28] state their intention to abstain from this argument, and produce an 'article of record' but they clearly regard the project as a success.

Likewise McDonald[29] has written appreciatively of the SDA's environmental work as it relates to the Scottish 'townscape', describing it as 'the apotheosis of a long line of initiatives implemented by economic and physical planners in Scotland'[30]. Rich[31] also talks of the SDA having 'a substantial beneficial impact' on Scotland's landscape. He notes, however, that available resources can in no way hope to tackle the remaining problems in the field, and that momentum of expenditure on such work is slowing, and giving way to other heads of expenditure within the Agency's budget.

Hood and Young, Kirwan and Robertson all make the point that the SDA, after initial hostility from local authorities and the business community has now achieved a high degree of public acceptance. Hood and Young's judgement is that 'in its early years, the SDA was pushed into gaps which it was not equipped to fill and that even in more recent years there has been a temptation to try to fill too many gaps relative to available resources'[32].

Mention has already been made of the SDA's submission to the Wilson Committee, but parliamentary committees have also played a role in studying certain aspects of the Agency's work, including the House of Commons Committee of Public Accounts[33], which scrutinises its annual reports and has investigated its industrial investment activities, and the House of Commons Select Committee on Scottish Affairs[34], which, during the 1979/80 parliamentary session, conducted an investigation into the promotion of inward investment in Scotland, and made recommendations concerning the SDA.

Welsh Development Agency

As much of the academic work on the SDA has emanated from a single source, namely the Centre for the Study of Public Policy, the leading role in the study of the WDA appears to have so far been played by the Department of Town Planning at UWIST. Students of the department have undertaken two major critiques of the Agency, by Morgan[35] and Eurig[36], which will be discussed below. However, interest has been led by Cooke, from whose work both Morgan and Eurig derive the theoretical framework in which they set out their research. Cooke[37], as mentioned above, locates the WDA within the strategy of state restructuring of the Welsh economy, in line with the demands of the international division of labour, and sets it in the context of the shift in regional policy toward 'selective' or discretionary aid to regional industrial capitals. This latter he regards as one of the immediate reasons behind the establishment of the Agency as combined with pressure from political interests, and the Labour Party's commitment to a form of public sector planning. From this basis, Morgan[38] proceeds to study the type of firms assisted by the WDA, and concludes that they can be divided into two types - 'peripheral', small, poorly-unionised companies with low profits, low productivity and low output - and 'core', large, externally controlled companies with high levels of female employment. By encouraging these companies, he argues, the WDA is assisting the restructuring of the Welsh economy for the benefit of international capital by introducing changes in the production process, and increasingly, the 'exploitation' of labour. He supports this with data showing the low level of unionisation in Agency firms, their low multiplier effect and employment structures biased towards sectors of the labour market in which wages in Wales lag below average levels. The WDA, he concludes, is a capitalist development agency operating in regional space.

Much of Eurig's[39] work mirrors the above, but his conclusions, following a survey of the agencies' three main areas of activity, are on a practical rather than a theoretical level. He believes that the WDA has not created jobs in the areas of greatest need, has invested in the interests of capital restructuring rather than employment creation, and has neglected sectors which would help stem population flow from the coalfields. He suggests that the Agency be more realistic in the estimates of its own success, and that it should offer more aid to the service sector.

In a critical account of the WDA's formative years, Osmond[40] adopts a different perspective from that of the "Cooke school", arguing that the Agency represents a classic colonialist response to underdevelopment and that it would lack the political will to carry out its task unless it came under the control of the Welsh Assembly.

The operation of the Agency's investment function has been described by the Agency in a submission to the Wilson Committee[41], and in an article by the late Ian Gray[42], then the Agency's Chief Executive, who emphasises that the Agency's investment policy is based on commercial criteria and eschews support for "lame ducks." This policy is criticised by the Wales TUC in evidence submitted to the Committee on Welsh Affairs in 1979 as "cautious and contained."[43] The Wales TUC argues that the WDA has chosen the softer option of industrial landlord and property developer rather than fulfil its original commitments.

The Wales TUC evidence was submitted to the Committee on Welsh Affairs which conducted an important investigation into the role of Welsh government institutions in employment creation, to which many organisations and individuals submitted evidence. The Committee's report expressed fears that the WDA's work is being concentrated on areas affected by steel closures, and recommends that funds for industrial investment be increased, and that target rates on investment be reduced. A recommendation eventually accepted by the government was that the Development Corporation for Wales, an industrial promotion body comprised of representatives of business, the local authorities and trade unions, be wound up and that the WDA be given responsibility for the co-ordination of inward investment efforts in Wales.

The report shares Eurig's concern that relations between the Agency and other organisations involved in industrial development need improvement, and that responsibilities need to be more clearly defined.

Highlands and Islands Development Board

The HIDB is the oldest-established regional development agency in Britain and as might consequently be expected, has generated the most substantial corpus of literature.

The most detailed consideration of the origins of the Board has been made by Thompson[45] in a work on the Board's predecessor, the Highland Advisory Panel. The Board was set up under the terms of the 1965 Highlands and Island Development (Scotland) Act and its powers expanded by a further Act of 1968. The scope of this legislation is covered by Henderson[46].

The first attempt to assess rather than merely describe the work of the Board was made by Carter, who in a famous phrase accused it of being "a passive milch-cow"[46]. His argument was that with no comprehensive development policy the Board was reacting to the pleadings of interest-groups rather than allocating resources on a predetermined set of priorities. In a subsequent work[48], he expands his criticism by postulating that whilst the Board was attempting to solve the 'Highland Problem' by opening the region up to market forces, the very deprivation that it has been established to combat has been caused by previous uncontrolled exposure to such forces. His views are supported by Geddes[49] who sees the HIDB as a tool of the state designed to facilitate the market's demands for a concentrated workforce in the peripheral regions (hence the Board's early "growth-pole" strategy). Its role is to remove all obstacles to capitalist development in the area. Such criticism must be contrasted with the accounts of Spaven[50], a former employee of the Board who credits it with reversing the area's depopulation and providing local jobs for the community, and McGregor[51], who, whilst arguing strongly for a development strategy based on flexible initiatives for the West, contends that the Board has learnt from experience, and improved its operations over time. He divides the Board's history up to 1979 into three periods, 1965-1970, 1971-1975, and 1976-1979, coinciding with the terms served by the Board's first three chairmen, and he points to the new directions taken by the Board in the latter period under Kenneth (now Sir Kenneth) Alexander. Alexander's strategy for the Board which includes a renewed attempt to tackle the land problem in the Highlands and a greater concern with the problems of the western parts of the region has been well-documented[52].

Recently, three detailed criticisms of the Board's work have appeared. Shucksmith and Lloyd[53], in a paper analysing the HIDB in the light of the Invergordon aluminium smelter closure, contest that the Board, whilst remaining by the now-outdated regional policy perspectives which shaped its formation, has adapted well to criticism over time, for example, in moving away from its earlier preoccupation with large-scale manufacturing activity. Mackay's 1980 report for the Highland Regional Council[54] on the overlapping of public authority responsibility in the Highland Region took issue with the Board on several points including its commercial criteria for investment, the narrowness of its assistance, its centralised organisation and lack of contact with local firms, and the confusion of responsibilities between it and other Scottish organisations. The most comprehensive work on the HIDB is the history published in 1983 by another former Board employee James Grassie[55], which gives a number of insights into the internal workings of the Board. He concludes that whilst it is difficult to measure the effectiveness of the Board as distinct from other factors such as North Sea oil, recent decisions such as the recruiting of foreign consultants to identify Highland entrepreneurs, and the setting up of a craft centre in a central as opposed to peripheral location have contradicted the Board's aims, with a consequent deleterious effect on staff morale. He argues further that the reasons for its continued existence are diminished by the improvements in the regional economy which have taken place since 1965, and the Board's refusal to take up the issue of land, which Grassie believes, represents the central problem of the Highlands.

Concerning specific areas of Board activity, Bryden[56] has written critically on the Board's agricultural policies, whilst Shucksmith and Lloyd [57] have attempted to locate the HIDB within a framework of rural planning in Scotland. One element of assistance for the more remote areas of the Highlands in recent years has been the community co-operative scheme, instigated in 1977 following the success of a similar scheme in the West of Ireland. In 1984, a group of Irish academics visited the Highlands and produced a detailed report comparing the two programmes (Breathnach et al)[58]. The conclusions drawn relate to potential improvements in the Irish scheme, but they are preceded by a favourable assessment of the promotion and operation of the Highland co-operatives. Capital investment forms a comparatively small part of HIDB work, though unlike the SDA and WDA it is able to give grants to private companies. Minns and Thornley[59] have analysed the Board's equity investments and general investment policy up to 1976, and compared it with the record of the NIFC, which was in 1976 superseded by the NIDA. They contend that the success of the HIDB-invested companies compares favourably with companies unsupported by the state, and that the investment role serves the purpose of attracting private finance to companies which would fold without state support. Minns and Thornley's work is based on the premise that investments by bodies such as the HIDB and NIFC constitute shareholding, and represents the third instrument that the state has used over time to subsidise private capital, the first two instruments being municipalisation, the process by which local authorities in the nineteenth century took over certain public utilities, and nationalisation.

The HIDB's investment policy, along with other aspects of its finances, has been scrutinised by the House of Commons Committee of Public Accounts[60]. In 1985, this Committee reviewed the investment activities of the SDA, WDA and HIDB. The Committee recommended that the HIDB be given a series of targets by which its investment performance could be measured. Both Labour and Conservative governments had previously been opposed to the introduction of such targets in relation to the HIDB, because of the social aspect of its remit. The Committee was, however, concerned that the investment performance of all three agencies should be measured not just in financial terms, but against their statutory objectives.

Development Board for Rural Wales (Mid Wales Development)

The DBRW (which changed its name for promotional purposes to Mid Wales Development, MWD, in 1983) is the most recently - established of British mainland regional development agencies. Its creation, arising from the Mid Wales Industrial Development Association and the Newtown Development Corporation is documented by Broady[61], and its functions have been outlined by the Board in a memorandum submitted to the House of Commons Select Committee on Welsh Affairs[62] and the House of Lords

Standing Committee on the European Communities[63]. The Board's achievement since its inception in the attraction to and promotion within Mid Wales of manufacturing industry has been recorded by one of its employees, Grenville Jackson[64], in a paper which discusses the development of indigenous entrepreneurial talent within the area. However, the perceived preoccupation of the Board with manufacturing and economic development in the narrow sense has been criticised by a number of writers, who believe that the Board does not appreciate the nature of the area's problems. Mingay[65], writing shortly after the Board had commenced operations, referred to it as perpetuating old problems by preferring the manufacturing solution. Hedger[66] calls for more "locally-based and differentiating policies", whereas John[67] accuses the Board of being "centralist and paternalist", preferring narrow job-creation to the provision of opportunities to work. In contrast, the memorandum submitted to the Select Committee on Welsh Affairs[68] by the Wales TUC (mentioned above) compares the work of the DBRW favourably with that of the WDA, and declares that the Board has 'effected a triumph against all the odds' in terms of low-cost job-creation and the attraction of industrialists to the area.

Northern Ireland Finance Corporation/Northern Ireland Development Agency/Industrial Development Board

McKie[69] in her study of development agencies in Ireland, both Northern and Southern, documents the origins and metamorphoses of the economic development organisation, now known as the Northern Ireland Industrial Development Board, as well as its small-business counterpart, the Local Enterprise Development Unit (LEDU). She sees the NIFC as a direct government response to the civil disturbances, and to the fear that they would irretrievably harm the economic fabric of the region. NIDA, the body that replaced it was modelled on the Scottish and Welsh agencies that had been introduced in Britain. It was in turn superseded by the IDB in an effort to challenge the "one stop shop" approach offered by the Republic of Ireland's IDA. McKie adds that, whereas these changes were occasioned by pressing practical demands, they also reflect a crisis-management style of government, the authorities' need to be 'seen to be doing something'. She concludes that the development agency, in whatever form it exists, is likely to play an important part in employment creation in Northern Ireland in the future.

Official support for a development agency strategy was given by the Quigley Report[70]. This describes the task of the then newly-established NIDA as 'critically important' and calls for the formation of a state manufacturing sector which would create 1500 jobs a year.

The investment policy of NIDA, and its predecessor, the NIFC, has been scrutinised by Minns and Thornley[71] (see above) and contrasted with that of the HIDB. They find the NIFC more willing to take majority stakes in companies, and with more resources to invest, operating less stringent criteria for investment, and offering a wider range of assistance. However, by 1980, groups such as the Northern Ireland Economic Council (NIEC)[72] were calling for the replacement of NIDA, LEDU, and the Department of Commerce by a single Economic Development Authority. NIDA suffered damage to its public reputation through its involvement in the De Lorean car project. Fallon and Schrodes[73] describe the difficulties NIDA encountered in first attracting, then exercising control over this large foreign investment which cost the British government an estimated £77m. In 1984, a report by the House of Commons Committee of Public Accounts[74] strongly criticised NIDA's role in the affair, and made several recommendations to the IDB concerning future conduct in such cases.

The IDB itself has been the subject of adverse judgements during its brief lifespan. Its original structure and guidelines for operation as given to it by the Secretary of State were disapproved of by the ICTU[75] for various reasons, including the emphasis placed on 'commercial' rather than 'economically-justifiable' investment, and the scope for ministerial and civil service interference in the activities of the Board. The Board was criticised in 1984 by the NIEC[76] for failing to meet job-promotion targets, and not having developed a long-term industrial development strategy. In December 1984 the Economic Development Committee of the Protestant-supported Northern Ireland Assembly published a report[77] which includes recommendations on making the work of the IDB and LEDU more effective. Amongst these is the demand that a development strategy for the Northern Ireland economy be drawn up by a commission consisting of government departments, agencies such as the IDB, trade unions and the assembly itself.

National Enterprise Board/British Technology Group

This study is concerned primarily with the NEB in its regional role, such as evolved from 1977 onwards. However, the NEB as a whole figured prominently in Labour's National Industrial Strategy of 1975, of which the Scottish and Welsh Development Agencies were also part. Hatfield[78] has researched the origins of the NEB, in particular the path by which the state holding company concept, championed by Stuart Holland[79] amongst others, made its way into the Labour Party election manifesto. The NEB's aims and functions are set out in a memorandum submitted by the Board in evidence to the Wilson Committee[80]. Grant[81] places the NEB in the context of changing industrial policy, whilst Stephen Young[82] has dealt with its importance in terms of industrial planning. Grant[83] considers the establishment of two regional boards in the North and North-West of England in 1977 to have been a political response to devolutionary pressures, which was not wholeheartedly supported by senior Board management. He sees their impact as having been limited, the NEB being more suited to the pursuit of 'efficiency and international competitiveness' than employment creation, and he concludes that they demonstrated the importance that politicians attach to regional aid. However, Guthrie and McLean contend that the claims of government ministers that the powers of the SDA and WDA were reflected in the regional role of the NEB were treated with scepticism in English development areas. Butt Philip[85] makes the point that the NEB had no specific plans for the English regions, and that its efforts were confined to encouraging companies that it controlled to invest in these regions, and to supporting those companies already established with equity injections. An alternative proposition put forward by Mitchell[86] is that the regional role developed as part of a process of disengaging the Board from the original aims of the state holding company as perceived by its creators. It also provided a means of fostering links with private sector finance, through the co-opting of local businessmen onto the regional boards, and the creation of capital funds for small businesses in conjunction with private financial institutions. Parr[87] argues that in its early years the NEB was of necessity, almost wholly concerned with the management of its 'transferee companies' such as Rolls-Royce, and that this allowed only a limited amount of activity in other areas. He recommends that the financial base of the NEB should be raised in order to allow it to diversify into the regions, and that it should liaise more closely in providing venture capital with the NRDC.

Other UK Agencies

Descriptions of the work of other UK agencies referred to in this study can be found in Mawson and Miller[88]. A history of the Co-operative Development Agency up to 1982 is given in Rigge and Young[89]. Butt Philip[90] has analysed the employment generation potential of the Development Commission and its implementing agency, COSIRA. COSIRA's aims and functions have been outlined in evidence submitted to the House of Lords Standing Committee on the European Communities[91].

Benelux Agencies

The available literature in the English language on regional development agencies in the Benelux countries is not extensive. This may be partly explained by their small size in comparison to UK regional development agencies, yet it is nevertheless surprising in respect of the considerable volume of work published on Belgian and

Dutch regional problems (see below). Keyser and Windle[92] have brief descriptions of certain agencies, outlining aims, functions and modes of operation, whereas in Yuill[93] the SDRW, NOM and the ARBED New Industries Department are extensively profiled. The work of the cellules of the SDRW is referred to in Pahlawan-Marten's[94] discussion of support for small and medium-sized enterprises in Belgium. The Wallonian rural agency, the FRW, its aims, organisation and services have been outlined by Sottiaux[95] in a paper for the European Centre for Work and Society. This concentrates on explaining the role of the 'development agent' in assisting local community initiatives, a theme expanded by Curry[96], who describes the rural regeneration programmes of the Wallonian Regional Ministry as pursued by the FRW, and draws lessons for similar work in the UK.

Luxembourg's approach to the onset of recession in the steel industry, embracing the Division Anti-Crise and its subsidiary Department d'Industries Nouvelles, is appraised in an article in the journal Management Today[97].

Conclusions

As has been noted above, much of the literature on agencies has been of a primarily descriptive nature. However, from the works of those who have analysed the agencies' performance, several common themes have emerged. Firstly, it is clear that the size, structure and functions of individual agencies, whilst not being unique to each one cannot be predicted on a national basis, some differences being intra-national rather than international. This does not preclude the extrapolation of general trends amongst European agencies, as Yuill[98], for example, has attempted.

Most of the agencies so far studied rely on government financial support in various forms, but the balance of public and private sector interests in their organisation and activities is not uniform. Even bodies such as the Scottish and Welsh Development Agencies, funded and controlled through government departments, have encouraged, in recent years, the involvement of private companies in their operations. The importance of this public/private sector relationship is well illustrated in the arguments, outlined above, concerning the agencies' industrial investment role (arguments which also occur in relation to other functions in agencies which do not undertake investment). Thus, the agencies have been criticised on the one hand for being too cautious in their investment policy, and expecting too high a rate of return on investments (ie. a 'commercial' rate) and on the other, for wasting money on projects that are unlikely to attain profitability in the short to medium term.

The literature also reveals the difficulties of measuring the 'performance' of any individual agency. Even the agencies themselves no longer appear to place much credence on job-creation figures (with the possible exception of the Northern Irish Agencies). Apart from the obvious problem of 'slippage', jobs expected from a project not materialising over the planned time-span, there is no accurate way of measuring whether or not jobs created by agency activity are 'new jobs' or are merely displacing workers in competing companies. In addition, if one chooses to utilise external measurements to analyse agency performance, such as population growth or unemployment decline within the region concerned, there is no way of calculating to what extent the figures are a product of agency operations. For example, favourable trends in the Highland economy over recent years have, it has been claimed, owed more to the discovery and development of North Sea oilfields than to the work of the HIDB. It is unlikely, therefore, in the light of research so far undertaken, that a completely satisfactory method of analysing agency performance, which does not rely on generalisations, can at this stage be constructed.

Public debate on the agencies, has, at its most fundamental level, focused on the role of such agencies within modern Western economies. It will be argued below that the manner in which many agencies conduct their operations has curtailed widespread public discussion on them. However, there has been criticism of the strategies pursued by agencies in pursuing the economic development of their region. Some commentators have argued that agencies should increase support for indigenous companies, particularly in the service sector and pay less attention to attracting foreign manufacturing investment. Furthermore, there has also been considerable argument about the agencies' policies toward the various sub-regions they serve. Hence the SDA have been accused of favouring the Strathclyde region of central Scotland, whilst others have maintained that the WDA has acquiesced in the depopulation of the South Wales valleys. Finally, some have gone as far as to question the whole 'modus operandi' of the agencies, such as those critics of the HIDB and DBRW who see them as attempting to foist a particular form of industrial development on an unwilling population. Neither is the trend confined to the rural development agencies, the WDA, for example, has been characterised as assisting in the 'disarticulation' of the Welsh economy, and its subordination to external control.

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CHAPTER THREE

UK Regional Development Agencies - A Brief Description

The UK economic background

As one economic commentator has written recently 'it would be generally agreed that the United Kingdom's economic performance in the post-war period can only be described as poor, at least by comparison with that of other industrialised economies'[1]. The United Kingdom can broadly be described as a commercial and manufacturing country, with a low proportion of workers engaged in agriculture, and an urbanised pattern of population settlement. The keys to its economic strength in the nineteenth and early twentieth centuries were its maritime location and sea-borne trade, its insularity and its energy reserves. However, in spite of or perhaps because of, its historic ascendancy as one of the world's leading trading nations, and the first to experience mass industrialisation, as well as the latter-day boon of North Sea oil, the British economy, as reflected in terms of growth, productivity, inflation and unemployment has not fared as well in recent years as have those of the majority of its Western European competitors (See Tables 1-4).

In common with these competitors, the UK has been presented with the problems of falling demand for the products of its major industries, lower production costs in the Newly Industrialising Countries (NIC's), and the rising costs of raw materials on the world market. However, in the UK in particular, price inflation (coupled with a fixed exchange rate) eroded export price competitiveness, and combined with wage inflation to increase production costs. The quadrupling of oil prices by OPEC over the course of a few months in 1973/4 also affected the UK more severely than most other Western industrialised nations, reducing its terms of trade by over 20%[2]. Though both price and wage inflation in the early 1980's were reduced from the levels of the late 1970's, the failure to increase real output, variously attributed to lack of productive investment, failure to make innovations in the production process, and the continuation of 'restrictive practices' by organised groups of labour, has led to record levels of unemployment. (see Table 3).

It has been argued that the UK's joining of the European Community in 1973 came too late for the country to reap the benefits of membership that had accrued to, for example, the Benelux countries, and that the UK's balance of trade was unfavourably affected by the sudden exposure to European competition[3]. Of particular importance to the UK regions, however, has been the attraction of foreign - owned enterprises to sites from which they can operate without being subject to EEC tariffs on imported goods.

Industrial policy

Industrial policy in Britain has evolved as a response to the economic problems outlined above. Whilst discussion is often couched in ideological terms, policy has tended to be related more to short-term goals, and decisions taken on a pragmatic basis rather than in accordance with a set of beliefs. Wilkes assimilates these two factors, 'partisan' politics and 'pragmatic' policies, in asserting that 'the pattern has been for each government during the 1970's to bring into office an ideological industrial policy that is highly pro- or anti-intervention in the market. After a period, consensual pressures and industrial circumstances have obliged a return to a more pragmatic and so-called 'mixed-economy' approach'[4].

If the creation of government machinery for its implementation is a necessary precondition of an industrial policy, then its birth in Britain can be traced back to the creation by Labour in 1964 of the Department of Economic Affairs, which was charged with the task of implementing a National Plan which projected future demand over a range of industries, based on an assumed overall growth rate for the economy[5]. This was a policy swiftly overtaken by events, in particular the balance of payments crisis of 1966, and in that year the Department of Economic Affairs was abolished. Responsibility for industrial policy, such as it was then, was handed over to the Ministry of Power, and the Board of Trade. In 1970, Mintech merged with the Board of Trade (BoT) to form the Department of Trade and Industry. However, prior to the General Election of February 1974, a separate Energy Ministry was created from it. The policy of breaking-up this large unit was extended by the incoming Labour administration, which separated the Departments of Trade and Industry, and created from them a new, third department, that of Prices and Consumer Protection. This was wound up by the Conservatives in 1979, and in 1982 the Departments of Trade and Industry were once more amalgamated.

According to Grant and Wilkes, there are only a small number of microeconomic instruments of industrial policy available to the UK government. They list four: regional policy, selective assistance, innovation policy and company taxation[6]. The history of regional assistance is well - documented and will be referred to in detail below. Selective industrial assistance is dealt with in the UK primarily under the terms of section 8 of the 1972 Industry Act, and offered to commercially viable projects which are internationally mobile, or will lead to substantial improvements in performance or the introduction of new products. Innovation policy is an area particularly favoured by the Conservatives in recent years, despite their stated commitment to free-market economic solutions. Expenditure on general industrial research and development increased from £66m (at 1980 survey prices) in 1978/9, the last year of the Labour government, to £84m in 1979/80, and £108m in 1980/81[7]. The use of company taxation as a means to stimulate industrial investment has taken the form of accelerated depreciation allowances against taxation. Also in 1966, the then Labour government introduced the Selective Employment Tax, designed to shift workers from 'non-productive' service sectors into manufacturing industry. A variation on this type of measure, introduced by the 1979 Conservative administration was the Enterprise Zone scheme, which delineated specific geographic areas within the boundaries of which companies would be exempted from rates and development land tax (DCT), given 100% allowance against corporation and income tax for investment in industrial or commercial buildings, as well as being exempted from planning controls and other government regulations.

Three of the above policy instruments were incorporated into the powers of the National Enterprise Board, established by the Labour government in 1975, and covered in detail below. It was created as part of an interventionist policy which aimed to regulate the economy through the taking into public ownership of leading companies in a number of industrial sectors, in order to promote restructuring and the conclusion of planning agreements with other companies which were to include forecasts of the companies' output, employment levels and wage settlements[8]. In practice, few companies were taken over, and only two planning agreements were settled, with the ailing Chrysler (UK) car company, and the NCB. The principle of selective assistance was, however, strictly adhered to in the form of large-scale financial assistance to British Leyland and Rolls-Royce. The NEB also set up regional Boards to encourage industrial development in the North and North West of England. In 1981 it was announced that the NEB was to merge with the National Research Development Corporation to form the British Technology Group (BTG), and in the second term of the Thatcher government, its new role was defined as the support of technological innovation in industry. This change illustrates, as noted above, that the Conservative governments of 1979 and 1984 were committed to some continued intervention in industry, in deed if not in thought. Regional policy has remained in operation, despite modifications (which some admittedly see as presaging its ultimate demise), as does the 1972 Industry Act with its provision for sectoral and regional assistance. Innovation policies have expanded, particularly those applicable to small firms. However, it is undeniable that there has been, in the words of Grant a 'trimming of industrial policy'[9], reflected in reduced expenditure on regional assistance, the cutting-back of subsidies to state-owned industries (e.g. BSC, NCB), and state-assisted companies (British Leyland), and the dismantling of the NEB. The government justifies this policy in terms of the need to reduce the Public Sector Borrowing Requirement (PSBR), and a preference for macro-solutions to 'national' economic problems; it maintains through its discourse, that it cannot initiate economic growth, only create favourable conditions for it.

Regional Problems and Policy

It has been argued both that regional inequalities are not particularly great in the UK[10], and conversely, that unequal regional development is so pronounced as to produce pressures which may result in the fragmentation of the present British state[11]. This dichotomy of opinion may partly be explained through figures that show that disparities in income are less across UK regions than in many other European countries, but that unemployment is unevenly spread[12]. In the "synthetic index" of European regions compiled by the European Commission and published in 1984, which calculates the relative standing of 131 regions according to time-series data on unemployment and gross domestic product rates, many UK regions are shown to be among the poorest in Europe (see Table 5)[13].

Nicol and Yuill identify three types of problem regions in modern Western European economies, the older industrialised region, the predominantly agricultural region, and of more recent importance, the congested region[14]. The United Kingdom possesses examples of all three types; areas such as South Wales, North East England and Central Scotland, where traditional staple industries such as coal, steel and shipbuilding have been in long-term decline; mid Wales and the Highlands and Islands of Scotland, rural areas whose problems have been raised by the reduction of manpower in the agricultural sector, and high levels of emigration; thirdly, inner-city areas on Merseyside, in Manchester and Inner London, where civil disturbances in 1981 highlighted the social and economic difficulties of central parts of large conurbations, from which industry has migrated in order to find space for expansion. In the case of Northern Ireland, one finds elements of all three types in one region with employment decline in the shipbuilding and textile industries, as well as the important agricultural sector, combining with the particular problems of urban decay in Belfast. If one then adds to this the extra dimension of the effect of fifteen years of civil strife, it is not surprising that by the vast majority of economic and social indicators, Northern Ireland is by far the most deprived region of the UK (see, for example, Table 5).

The alleviation of regional disparities in the UK has been recognised as the responsibility of government for over fifty years, and dates back to the first Special Areas Act 1984. There has also existed general political agreement about the areas that most needed assistance. In recent years, however, the situation has become more fluid as a result of two factors. Firstly, the government's desire to reduce public expenditure occasioned a diminution in the size of the areas eligible for regional aid in 1980. Secondly, the recession of the late 1970's and early 1980's, whilst affecting all regions to a degree, struck some with more severity than others, and did not conform to a traditional pattern, 'it had a sufficiently new

Date: 1934

industrial composition to effect marked regional changes in the distribution of large amounts of additional unemployment. It extended the incidence of decline from 'peripheral' regions further in to most other regions, particularly the West Midlands and the North West'[15]. The spreading of high levels of unemployment beyond the traditionally depressed regions has produced calls to widen the geographical base of regional assistance, but conversely, has caused others to argue that such forms of assistance are no longer of value[16]. Having covered the recent history of regional policy above, it would therefore be instructive to consider regional policies and incentives as they currently stand.

The basis of the present system of financial assistance remains the 1972 Industry Act, (notwithstanding modifications made to it by subsequent legislation) which established regional development grants for expenditure on new buildings, machinery and plant at up to 22% of total cost in Assisted Areas, the amount being dependent on the status of the area[17]. These grants were available on a non-discretionary basis. The Act also provided for selective aid to Assisted Areas (known as section 7 assistance) for projects complying with specific criteria. Originally, these criteria were that the project assisted be 'viable', that it safeguard existing or create new employment, and that the greater part of funding for the project should come from the private sector. The 1979 Conservative administration added the proviso that the project should strengthen the regional and national economy, and that it should not have taken place without public assistance.

In 1984, the automatic element of RDG's was removed, cost-per-job limits imposed, and a two-tier grants system comprising Development and Intermediate Areas was introduced. In the former, capital grants are available at 15% of costs, and in the latter, companies are eligible only for selective assistance. Capital grants must amount to no more than £10,000 per job if more than 200 jobs are created. Companies planning to create a large number of jobs at low cost (for example, in the service sector) can claim £3,000 per job if this amounts to more than 15% of project-cost[18]. The changes were expected to bring about a reduction of £300m per annum in regional policy expenditure by 1987/8. They reflect not merely a concern on the government's part to make regional policy more cost-effective, but, it has been argued, fundamental lack of confidence in the relevance of such a policy to national economic revival. The White Paper that preceded the measures stated that 'the government believe that the case for continuing the policy is now principally a social one with the aim of reducing, on a stable long-term basis, regional imbalances in employment opportunities,[19].

Table 1 GDP trends, 1953-1979 (average annual percentage changes)

	1953-61	1961-73	1973-79
France	4.9	5.6	3.0
Germany	7.2	4.5	2.4
Italy	5.8	5.1	2.6
United Kingdom	2.9	3.1	1.3
Spain	4.7a	6.9	2.8
Austria	6.8	4.9	3.1
Belgium	3.4	5.0	2.3
Denmark	3.9	4.5	2.1
Finland	5.5	4.7	2.3
Ireland	1.8	4.3	3.6
Netherlands	4.6	5.2	2.5
Norway	3.4	4.3	4.4
Sweden	4.0	3.9	1.8
Switzerland	5.2	4.1	-0.4
OECD Europe	4.9	4.7	2.4

a.1954-61

Source: A Boltho (ed.) 'The European economy:growth and crisis' p34.

Table 2 Productivity trends (average annual percentage changes)

	1953-61	1961-73	1973-79	1953-79
France	5.0	4.6	2.8	4.3
Germany	5.2	4.5	3.2	4.4
Italy	5.5	5.6	1.5	4.6
United Kingdom	2.0	2.9	1.2	2.2
Spain	4.0[b]	6.0	4.2	5.0[b]
Austria	5.5[c]	5.1	2.9	4.8[c]
Belgium	2.8	4.1	2.3	3.3
Denmark	3.2[d]	3.1	1.3	2.8[d]
Finland	4.8	4.4	2.5	4.2
Ireland	3.4[c]	4.3	2.2	3.5[c]
Netherlands	3.1	4.2	2.3	3.4
Norway	3.1	2.9	2.2	2.8
Sweden	3.0[d]	3.2	0.6	2.6[d]
Switzerland	3.1[d]	2.9	0.9	2.6[d]
OECD Europe	4.1	4.3	2.3	3.8

a GDP per employed
b 1954-61 and 1954-79
c 1951-61 and 1951-79
d 1950-61 and 1950-79

Source: As Table 1, p22

Table 3 Standardised unemployment rates 1981-1983 (by % of workforce)

	1981	1982	1983
France	7.3	8.0	8.0
Germany	4.4	6.1	8.0
Italy	8.3	8.9	9.7
United Kingdom	10.6	12.3	13.1
Spain	14.0	15.9	17.4
Austria	2.5	3.5	4.1
Belgium	11.1	13.1	14.7
Finland	5.1	5.8	6.1
Netherlands	8.6	11.4	13.7
Norway	2.0	2.6	3.3
Sweden	2.5	3.1	3.5

Source: OECD Main Economic Indicators December 1984

Table 4 Economic Performance Index 1974-80[1]

Country (in rank order)	Score
Austria	38.3
Japan	37.8
West Germany	29.0
France	18.0
Republic of Ireland	16.2
United States	15.2
Italy	13.4
Denmark	10.4
United Kingdom	2.2

1 The index score is calculated as follows:

$$\frac{\text{real rate of GDP growth}}{\text{unemployment rate + inflation rate}} \times 100$$

Source: D. Mackay and W. Grant 'Industrial policies in OECD countries: an overview' in Journal of Public Policy Vol 3 no.1.

Table 5 Selected UK regions and the EEC synthetic index

Region:

	a	b	c	d
Northern Ireland	20.2	66	35	130
Dumfries and Galloway, Strathclyde	19.4	89	55	123
Clwyd, Dyfed, Gwynedd and Powys	14.1	83	73	109
Mid and South Glamorgan	16.9	88	69	113
Borders, Central, Lothian and Fife	14.4	95	80	103

a - unemployment level %
b - Gross Domestic Product/population index
c - Synthetic index, calculated from compound of above figures
d - Ranking out of 131 EEC regions, according to synthetic index

Source: 'The regions of Europe: second periodic report of the social and economic situation and development of the regions of the Community', Commission of the European Communities, Brussels, 1984.

Industry and Finance

Much criticism has been made of the relations between British banks and industry, to the effect that the banks are not as well attuned to the needs of manufacturers as are those of the UK's main industrial competitors[20]. However, it can be argued that this merely reflects the fact that the UK financial system has developed in a different way to those of the other European nations with which it is often unfavourably compared[21]. For example, the capital markets represent a particularly important source of funds for UK industry[22]. Banks prefer to supply companies with short-term loan or overdraft facilities rather than commit themselves to equity investments, which their counterparts in West Germany, for example, frequently undertake[23]. Furthermore, there does not appear to be any evidence either that this policy conflicts with the demands of private business or that business has been constrained by non-availability of external finance[24]. Large-scale institutional shareholdings tend to be confined to organisations such as pension funds, insurance companies and investment and unit trusts.

In recent years, there has been a rapid development of those institutions that Kevin Wilson has categorised as 'specialist intermediaries'[25], bodies that operate in both the pubic and private sector, catering for the needs of industrial and commercial borrowers. For example, as will be shown below, regional agencies in the UK have undertaken the provision of long-term finance and venture capital, often in areas where the financial services sector is poorly developed. Public sector activity in this field can, in fact, be traced back to the creation in 1945 of the Industrial and Commercial Finance Corporation (ICFC) and the Finance Corporation for Industry (FCI), which were established in a joint operation by the Bank of England and the London clearing and Scottish banks; in the case of ICFC its function was to provide loan and equity finance for small and medium-sized companies, and that of the FCI to provide medium and long-term loans to larger industrial companies[26]. In 1973, a holding company, Finance for Industry Limited (FFI) was formed to facilitate the acquisition of FCI by ICFC, and as a result of this change FCI altered its role from being a lender of last resort to the provision of long term finance on normal commercial terms.

The merger announced in 1981 of the NEB and NRDC brought together two public corporations which had previously been involved in the provision of finance on widely differing scales. The NEB's assistance to industry was based on sectoral as well as regional considerations (its investment policy is considered elsewhere in this work), whilst the NRDC provided finance for the development and exploitation of inventions. The role of the successor body, British Technology Group (BTG) is now confined to the provision of finance to encourage technology transfer. For exporters, the Export Credit Guarantee Department, a government department set up in 1919, provides export credit insurance.

In the private sector, Equity Capital for Industry (ECI) has been in existence since 1976, providing equity to smaller and medium-sized listed industrial companies, which are unable to obtain funds direct from the capital markets.

Of the regions which the UK agencies serve, Scotland alone has its own independent financial sector. However, that independence is qualified in that all three major Scottish banks have a link with one or other of the London clearing banks. The Clydesdale Bank is a wholly-owned subsidiary of the Midland, the Bank of Scotland is 35% owned by Barclays, whilst Lloyds has a 16% stake in the Royal Bank[27]. The importance of the financial sector in Scotland, which includes retail and merchant banks, investment and unit trusts, brokers, and insurance companies, is illustrated by the fact that whilst in early 1960's it had some 45,000 employees, by the early 1980's it had 85,000[28]. The presence of this strong financial services centre is a factor often referred to in discussion of regional development as related to Scotland, and agencies in other regions, as will be shown below, have acknowledged its significance in attempting to develop indigenous sources of capital. Com Bank of Wales

The UK financial system has developed in a highly specialised manner. Its characteristics appear to differ considerably from those of other major European countries, yet this has not necessarily been to the detriment of UK industry. The Wilson Committee's investigation into the financing of industry concluded in 1980 that real investment had not been unnecessarily constrained by shortages in the supply of external finance[29]. However, it added that there was a need for further public institutions to provide finance for small firms and suggested to this end the creation of an English Development Agency[30].

The UK

Introduction

As the literature survey above has shown, agencies in the UK have not been at the centre of public debate on regional or industrial policy. The 1984 government review of regional policy, for example, made no reference to them[31]. This may partly result from their separation from the main instruments of regional policy such as regional development grants which are administered through regional offices of the Department of Trade and Industry.

Of the agencies covered below, the HIDB was established in 1965, the NIFC, which predates the NIDA (1976) and the IDB (1983), in 1972, the SDA, WDA and NEB in 1975 and the DBRW in 1977: all by Acts of Parliament with the exception of the Northern Irish agencies, which were established by Orders in Council. Their activities span a turbulent period of British political history, as reflected in the changes in industrial policy which have taken place during this time, and that have been noted above.

In general terms, the State, which in the 1960's and 70's became increasingly committed to intervention in the private sector, is now pledged to reduce state regulation of the economy. The activities of the state holding company, the NEB, have been replaced by enterprise zone experiments, designed to free entrepreneurs from the 'dead hand' of state and local bureaucracy. As will be shown, these macro-level changes have had their effects on the agencies. However, it is their continuity under these circumstances which is particularly significant.

The role of agencies in the UK has officially been concerned with making economic activity within certain 'depressed' areas 'efficient', 'profitable' and 'competitive'[32]. As far as a common philosophy can be discerned, it has been to concentrate on economic development, in the belief that once this has been achieved, other benefits will flow to the region concerned. Against this, it might be said that provision for social development has been made a statutory responsibility of the rural development agencies, the DBRW and the HIDB, but even in this respect, social development is often seen as a means of attaining economic development, for instance, by retaining services and recreational facilities within a community in order to attract investors and key workers to it.

The agencies are not encouraged to think of themselves as job creation organisations, but to act in general accordance with commercial considerations; this trend has become more pronounced in recent years under the Thatcher government. The only agencies which have powers to dispense financial grants are the HIDB, IDB and DBRW; the HIDB and DBRW operate in areas which have generally-recognised special economic problems, whereas the DBRW has been given grant-giving powers in order to compensate for the loss of Assisted Area status in 1982 over much of the region it covers. Nevertheless, it has been argued that as the amount allotted to regional policy measures has diminished in real terms so the importance of the agencies to their respective regions has increased[33] (see Table 6) and that this may in part explain the greater acceptance of agencies in political and industrial circles of late which has been noted above.

Table 6 Expenditure on RPA in Great Britain, 1974/75 - 1982/83 (at 1982/83 prices)

Year	Total RPA[1] Expenditure (£m)	%Total RPA accounted for by: RDG's[2]	SFA[3]	REP[4]	SDA+WDA	Other
1974/75	1348	45.0	7.7	32.8	-	14.5
1975/76	1530	48.6	9.8	32.2	0.9	8.5
1976/77	1427	56.8	6.0	30.2	2.4	4.6
1977/78	883	77.6	8.8	0.6	6.3	6.7
1978/79	1010	66.4	16.5	-	9.2	7.9
1979/80	780	58.8	13.3	-	14.4	13.5
1980/81	872	67.1	9.7	-	14.7	8.5
1981/82	939	70.3	8.6	-	14.2	6.9
1982/83	912	75.6	9.5	-	10.2	4.7

[1]RPA - regional preferential assistance
[2]RDG - regional development grants.
[3]SFA - Selective financial assistance under Section 7 of the Industry Act.
[4]REP - Regional Employment Premium.
[5]SDA & WDA - Expenditure by Scottish and Welsh Development Agencies on land and factories in Assisted Areas (excludes expenditure by SDA in descheduled areas of Scotland in 1982/83).

[6]Other - Includes expenditure by English Industrial Estates Corporation, HIDB and DBRW preferential payments under the Small Firms Employment subsidy 1977-80 and a number of other smaller items.

All expenditure figures are gross and include payments to nationalised industries.

Source: Department of Industry, reprinted in Regional Studies Association. Report of an Inquiry into Regional Problems in the United Kingdom.

Scottish Development Agency

i) Purposes, functions and powers

The SDA's remit, as laid down by statute in 1975 is broad. The statutory aims of the Agency are fourfold; the furtherance of economic development, the provision, maintenance or safeguarding of employment; the promotion of industrial efficiency and international competitiveness and the furtherance of environmental improvement[34]. Its original functions included the financing of industrial enterprises, the establishment and running of businesses, the provision and management of industrial premises, environmental improvement and the encouragement of industrial democracy in its companies. This last mentioned function was deleted by the Conservative government under the 1980 Industry Act as was a reference to the assistance of 'reorganisation' in industry. The act added in their place a commitment to promoting private ownership by the disposal of agency assets including shareholdings to the private sector[35]. The Scottish Development Agency Act 1975 gave the Agency power to acquire securities, to form companies and partnerships, to make loans and grants, and to offer guarantees, to acquire manage and develop land and to provide advisory services. However, in practice, the right to acquire land was limited by the absence of powers of compulsory purchase, and the right to make grants has not been utilised (excepting certain small grants to craftsmen), presumably due to financial constraints.

On a day-to-day basis, two of the Agency's major functions, investment and factory-building are carried on in accordance with guidelines laid down by the Secretary of State for Scotland, and agreed between the Agency and the IDS. These outline the areas in which the Agency should be operating and lay down the targets for rates of return on investments and factory provision. The Agency also has its own operating guide, the self-generated Corporate Plan, which is regularly revised and covers a rolling three year period. It sets specific targets for the number of jobs to be created, the number of outside projects to be attracted to Scotland, and the amount of factory space to be constructed. The Agency has to prepare annually a plan setting out its overall development strategy, which is discussed with IDS. It is also required to submit annually a 3 year expenditure programme for the Public Expenditure Survey Committee (PESC), which is scrutinised by the IDS and the Treasury. These measures suggest, as will be referred to below, that any change in Agency policy or expenditure patterns will be at the least, known of in advance by the government, and will more likely be approved of or even have been initiated by it.

ii) Control

The SDA is formally accountable to Parliament through the Secretary of State for Scotland, and its activities have been periodically investigated by the House of Commons Committee of Public Accounts, and the House of Commons Select Committee on Scottish Affairs[36]. The members of the Agency's board are appointed for renewable four year terms by the Secretary of State. The Agency's accounts are audited annually by the Comptroller and Auditor-General who reports to the Public Accounts Committee. The Agency's sponsoring department, the

IDS (formerly the SEPD), is a department of the Scottish Office. It is through this department that the Secretary of State agrees guidelines with the SDA for the operation of its various functions and can issue directives. As has been shown above, the sponsoring department receives detailed expenditure plans annually from the Agency. Also, as a result of legislation in 1980, the Secretary of State can instruct the Agency to transfer holdings to him, or pay back Public Dividend Capital, which is one of its sources of government funding[37].

iii) <u>Budget</u> (see also Table 7)

The bulk of the SDA's annual budget is provided for under the Scottish Office vote in the form of grant-in-aid (covering administrative costs, factory-building and land development), whilst Public Dividend Capital, which is used to finance equity investment, and borrowings from the National Loan Fund are received direct from central government. Grant-in-aid has first to be negotiated as part of the IDS budget; the IDS budget then has to be justified as part of the Scottish Office budget, and following this, the Scottish Office then has to argue the case for its budget with the Treasury. Grant-in-aid is therefore vulnerable to considerable 'trimming' at various stages. Furthermore, the manner in which the sources of funding are split according to function gives central government greater power to influence the SDA's relative expenditure on them. The Agency has also acted as agent for European Coal and Steel Community and European Investment Bank loans which can be offered at discounted rates of interest, to small businesses. The rest of the SDA's income is self-generated, by the selling off of shares and of factory stock, and the rental of property. The government sets a limit on the amount of 'finance outstanding by the Agency', which has been amended by legislation and stood in March 1983 at £700 million[38].

iv) <u>Internal structure</u> (see also Table 8 and Fig 1)

There have been considerable changes in the internal structure of the SDA during its first decade of operation, reflecting not only changing policy emphasis but also practical adjustments the need for which have been established after experience of operating over time. For example, the discovery that investment staff were spending too much time servicing investments led to this responsibility being passed on to the Management Services Unit[39]. In 1981, an Industry Service Unit was established to offer advice on industrial relations and management, as was a New Ventures Unit to encourage the manufacture of high-technology products. By 1982, the Agency's initial structure of four directorates for finance, industry, environment and urban renewal, and two units for information and strategic planning had been revised to form seven departments, for finance and industry services, small business and electronics, estates and environment, planning and projects, area development, investment and marketing[40]. These changes indicate a move toward greater specialisation, certain departments being made up of several divisions, and a more productive use of staff expertise. The Agency also staffs the associate organisation, Locate in Scotland (LIS), set up as a product of the rationalisation of Scotland's inward investment efforts, and the subsidiary company, Scottish Development Finance (SDF) Limited, the principal purpose of which is to act in an advisory capacity in investment decisions and in merchant banking activities. As at the end of March 1983, the SDA employed 732 staff, including employees of LIS and SDF Ltd[41].

The overall running of the Agency is in the hands of its Board of Directors, the members of which are appointed by the Secretary of State. During recent years, the SDA's Board has undergone changes in its membership which have meant that it has become more representative of private sector industry and finance. The Conservative government replaced the Agency's chairman, Sir William Gray and chief executive, Lewis Robertson, with Robin Duthie, chairman of the camping equipment firm Black and Edgington's and Dr George Mathewson, a director and assistant general manager of ICFC. Also, appointed in 1981, were James Gordon, the managing director of a commercial radio station, John McCracken, the regional director of IBM UK Ltd, a company with large-scale Scottish investments and Norman Macfarlane, the chairman of Macfarlane Group (Clansman) Ltd. These changes are tabulated in Table 8.

v) Expenditure

SDA expenditure patterns have been dominated by monies allocated to the construction and development of factories and industrial estates. Up to 1981/82 the proportion of total Agency expenditure spent in this area had not dropped below 50%. However, in recent years, Agency expenditure figures have proved hard to interpret due to the rise in activity associated with area projects, which have not been accounted for separately. Evidence of their importance, however, is given by

Wannop, who notes that by March 31 1983 the Agency was managing an investment of £88 million in nine Area Development projects, in comparison with the £34 million it held in 725 Scottish businesses[42]. Writing in 1984, Stuart Gulliver, head of the Agency's Area Projects Programme, contends that 60% of the Agency's targettable resources are directed at area projects[43].

Table 7 SDA Source of funds 1976/7-1982/3

	1976/7	1977/8	1978/9	1979/80	1980/1	1981/2	1982/3
Grant-in-aid	9275	31660	48091	58372	76941	76350	94010
'PDC'	2276	6742	2235	1220	1636	-	4580
NLF[2]	432	1623	2562	5318	866	-	2185
Total HM Govt	11983	40025	52888	64910	79443	76350	101626
ECSC [3]	-	-	-	-	-	98	601
EIB[4]	-	-	-	-	-	-	250
Capital							
Receipts	744	1780	4015	5571	10777	10928	6012
Properties	637	1590	3522	4323	7151	5046	3492
Investment	107	190	493	1248	3626	5882	2520
Total	12727	41805	56903	70481	90220	87376	107638

[1]PDC = Public Dividend Capital

[2]NLF = National Loan Fund

[3]ECSC = European Coal and Steel Community

[4]EIB = European Investment Bank

Source: SDA Annual Reports

Table 8 SDA - -Changes in Board membership 1976/7 - 1982/3[1]

	A	B	C	D	E	F	G	H	Total
76/7	-	3	3	5	1	6	2	-	11
77/8	-	3	3	5	1	6	2	-	11
78/9	-	3	3	4	1	5	2	-	10
79/80	-	3	3	5	-	5	2	-	10
80/1	-	2	2	5	2	8	2	-	12
81/2	-	3	3	6	2	8	2	-	13
82/3	-	3	3	6	1	7	2	-	12

'Board members have been categorised according to their present employment, or in the case of full-time members, their most recent employment outside of the SDA.

Source: SDA Annual Reports

Key

A = Central government
B = Local/regional government or other public institutions
C = Public
D = Employers
E = Financial institutions and other non-government organisations
F = Private
G = Trade union
H = Other

vi) History

a) Origins

The then Secretary of State for Scotland, William Ross, opening the debate on the Second Reading of the Scottish Development Agency Bill in the House of Commons declared that 'the Bill is one of historic significance to Scotland. It is the first to confer on a Secretary of State for Scotland substantial powers in relation to Scottish industry'[44]. In an important elaboration of the government's perception of the new Agency's role he went on 'the SDA marks the creation of a uniquely Scottish approach to industrial development in Scotland. What we feel is needed is a body whose main concern is to keep and create as many jobs in Scotland as possible - not just to make the fastest and biggest profits. It will have to take risks'[45]. The SDA shared the statutory purposes, functions and powers of the WDA, but the government seemed more prepared to emphasise its innovative capabilities and 'national' appeal, than it did with its sister Agency. This may have reflected the higher level of consensus in Scotland about the need for such an Agency. Despite the fact that Conservative MP's made the customary ritual noises about 'the extension of Socialism'[46], and Nationalist MP's complained that the Agency's powers would not be great enough, and that it would be subservient to Westminster, the Opposition withdrew its objections to the Bill, with the exception of the clause which gave the Agency power to set up industrial undertakings, and the SNP supported it, calling it ' a faltering step toward the right goal'[47]. The Highlands and Islands Development Board had been operating in Northern Scotland for ten years, and had built itself a fine reputation, despite its initial critics, and in 1974, a major planning exercise on West Central Scotland, had made specific recommendations about the setting-up of a government-sponsored corporation which would be charged with bringing about industrial regeneration[48]. The STUC had called in 1971 for the establishment of a Scottish Development Authority, and had pressed the demand at subsequent congresses[49]. This had been supported by the Scottish Council on a nominally non-party basis[50]. In the words of the SDA's first chief executive, Lewis Robertson, 'the Agency has been talked about a great deal in Scotland for many years'[51]. When formed, the SDA assumed the work of two public bodies, which had been operating in Scotland for some years, the Small Industries Council for the Rural Areas of Scotland (SICRAS), and the Scottish Industrial Estates Corporation (SIEC). In inheriting these organisations, the SDA inherited a staff of 472, and thus the emphasis of its early activities and expenditure was in a sense, predetermined.

Table 9 SDA Expenditure 1976/7 - 1981/2 (in £m)

	76/77		77/78		78/79		79/80		80/81		81/82	
	£	%	£	%	£	%	£	%	£	%	£	%
Industrial Investment	3.5	17.8	9.7	18.7	6.7	10.0	9.8	10.5	11.9	12.0	14.5	13.9
Factories and industrial estates	14.6	74.1	25.8	49.8	36.2	53.9	48.4	52.1	52.7	53.0	61.8	59.2
Environmental	1.3	6.6	15.3	29.6	21.7	32.3	31.3	33.7	30.0	30.2	20.8	19.9
Other expenses	0.3	1.5	1.0	1.9	2.6	3.8	3.4	3.7	4.8	4.8	7.3	7.0
Total	19.7	100.0	51.8	100.0	67.2	100.0	92.9	100.0	99.4	100.0	104.4	100.0

Source: SDA Annual Reports

Fig 1 SDA Internal Structure (as in March 1983)

- Board of Directors
  - Chief Executive
    - Finance and Industry Services (60)
      - Industry Services
      - Internal Accounting
    - Small Business and Electronics (103)
      - Small Business Division
      - Electronics Division
    - Estate and Environment (368)
      - Factory Policy Division
      - Property Services Division
      - Building Division
      - Land Renewal Division
    - Planning and Projects (40)
      - Corporate Planning
      - Economic Services
      - Industrial Programme Development
      - Area Programme Development
      - Industrial Development Projects
      - Health care and biotechnology projects
    - Area Development (46)
    - Investment (SDF Ltd) (16)
    - Marketing (31)
    - Secretariat (53)
    - Locate in Scotland (Associate organisation) (15)

Source: SDA Annual Report 1983.

[1]Figures in brackets denote number of staff.

b) Industrial Investment

After it had dealt with the initial cluster of prospective investment projects attracted by the opening of a new source of finance, it became clear that the SDA's industrial development role would be considerably more limited than had been envisaged by certain of the interest groups that had pressed for its creation. The SDA considered that the demand for loan capital was well met by private financial institutions, and that its role should be to provide equity for small companies which could not raise capital on the open market, and to intervene to bring about management changes in companies which would normally be refused financial support from the private sector because of their perceived management deficiency[52].

The pattern of SDA expenditure over the ten years of its operation reflects the policy described above, with expenditure in money terms (though not in real terms) rising steadily, but as a proportion of expenditure as a whole falling off sharply from the levels of the first two years in 1978/9, and only slowly recovering in later years. In its Annual Report for 1979 the Agency attributes this decline to three factors, the limitation of staff numbers, the speed of take-up facilities by companies, and the underlying trends in the UK economy, plant closures, poor productivity and industrial disputes[53]. The willingness of the Agency to intervene in companies to correct management defects had the consequence of overburdening the investment staff, a problem which had also been experienced by staff at the HIDB. The Report noted that some of the Agency's investments 'require a great deal of supervision and hence management time, and the Agency's investment team has had to devote much effort to company guidance or reorganisation to ensure long-term viability and job security. Inevitably, this preoccupation with what are essentially advisory and management functions has placed constraints on existing staff who have had less time to devote to possible new investments'[54]. The Agency subsequently undertook a restructuring of the Industry Directorate in order to transfer the bulk of 'aftercare' work on investments to the Management Service Unit. In September 1979, the Guardian reported that 'government ministers have been concerned that the Agency's investment function has been taking a disproportionate amount of the time of its staff. This is detrimental to other responsibilities such as overseas promotion, factory-building, and clearance of derelict land'[55].

Therefore, the SDA partly explained the contraction of their investment activity by the fact that their staff were unable to cope with all their cases. SDA chairman, Robin Duthie, appeared to hold the government responsible for this, and in particular, the Civil Service Department. In evidence to the Committee on Scottish Affairs, he said 'it irks me as an industrialist that somebody who knows very little about the organisation of the SDA should be in a position to tell us what kind of organisation we are not allowed to have'[56].

In 1981, as mentioned above (section iv), the Agency established Scottish Development Finance Ltd., a wholly-owned subsidiary, on the Board of which sat representatives of the Agency and of private sector financial institutions, whose task was to advise on investment policy, and on individual investment decisions, and to offer post-investment advice to companies. In recent years, the Agency has increasingly acted as an investment broker, putting together equity packages in concert with bodies such as ICFC and the industrial banking off-shoots of the Scottish clearing banks, such as Clydesdale Finance and Royal Bank of Scotland Developments. It has been suggested that the Agency shares about 60% of its investments with other financial institutions, but that the rest of its projects carry too many risks to be supported by traditional sources of finance[57]. The Agency's renewed commitment to its investment function expressed by the increased activity of 1982/3 has involved a restructuring of the investment portfolio. According to Agency figures, the number of investments inthe portfolio increased by 33% during 1982/3, whilst the value of the portfolio rose by 42% over the same period. However, 60% of the Agency's investments are for sums of £200,000 or less, and in firms employing 100-200 people[58]. Furthermore, in 1983, the Agency had only one subsidiary company (excluding the non-trading SDF Ltd) compared with seven in 1978 and only one individual investment greater than £1m compared with five in 1980. The changes made in 1980 to the Guidelines to the Agency issued by the Secretary of State affected the industrial investment function in that it was relegated to a secondary role in the Agency's operations and the investment portfolio was required to provide a commercial rate of return. The average return on capital invested, which was running in 1978/9 at a negative rate, -14.3% had, by 1982/3 been improved to a positive return of 2.8%, though throughout the SDA's history, investment returns have been brought down by the losses on a small number of target companies. For example, the return of - 14.3% in 1978/9 could have been turned into a positive return of 5%, if three companies, Inveresk Research, Stonefield Vehicles and Redpath De Grott had been removed from the portfolio. Similarly, in 1981/2, the actual return on investment was 12.7%, but was reduced to 2.8% because it proved necessary to establish provisions against potential losses amounting to £1.3m.

The SDA's investment role in Scotland remains considerable, its investment expenditure being comparable with that of ICFC in Scotland[59]. It has also defined its aims in this area; to provide equity and loan assistance to smaller companies but primarily to act as an instrument by which such companies can attract private sector finance.

c) Factory provision

The extent to which the early history of the SDA's activities had been dominated by factory provision can be gauged by its planned expenditure programmes. In July 1977 Edward Cunningham, the Agency's Head of Strategic Planning, told a conference of the Regional Studies Association that the Agency expected to distribute its resources up until 1982 'about one third to factory building, a little less than one-third to urban renewal and environment, and somewhere over one-third to industry investment'[60]. In the 1981 Report, the Agency's plans for the following three years anticipated that two-thirds of total expenditure (66%) would be allocated to sites and premises, 17.5% to environmental improvement, and 12.5% to industrial investment. By 1981/2 factory provision was already taking up 55% of total expenditure. It has been mentioned above (section vi a) that the Agency inherited the Scottish Industrial Estates Corporation, which has given it a strong organisational commitment to the function, and which is expressed in the continued employment of 368 staff in the Estates and Environment Department in 1983, over half the Agency's total complement of staff. However, the lack of demand for industrial property in a period of deep recession, and the consequent surplus of Agency property, has influenced the SDA to conduct a review of its factory provision function. This has resulted in a diversification away from the construction of traditional advance factories to the provision of bespoke factories to order, particularly in relation to inward investment projects, and the development of small workshops. A large proportion of factory-building now takes place in conjunction with the area projects (46% of new advance factory completions in 1982/3). The Conservative government has also introduced target rates of return for the Agency's factory-building function, and relaxed the guidelines which had previously prevented the Agency from letting its premises for warehousing and service industry use. 1982/3 also saw the first example of joint Agency and private sector investment in a factory development, at Ayr Harbour Estate[62].

d) Environmental improvement

Having absorbed on its establishment the Derelict Land Unit of the Scottish Office, the work of environmental improvement and land renewal has formed a significant part of the Agency's operations, both in physical and financial terms. The function is potentially attractive in that it is relatively free of controversy, and helps to build the Agency's profile 'on the ground'. Originally, as in other fields, the Agency found itself reacting to the plans of other bodies, in this case the local authorities, but over time it has begun to initiate projects and to co-ordinate the activities of a range of public organisations. Thus, the Agency's spending on environmental work grew more than tenfold in real terms between 1975 and 1978, with a large proportion of projects being undertaken in Central Scotland, where the legacy of industrial dereliction was largest. However, with the emergence of area projects as major consumers of Agency expenditure and manpower, and the reinvigoration of the industrial investment function, the environmental budget has been squeezed (the budget was reduced by approximately 30% in 1981/2) and is likely, as is the factory function, to become more closely integrated with area development.

e) Area project development

The SDA's involvement in area development can be traced back to 1976 when it was given a co-ordinating role in the GEAR (Glasgow Eastern Area Renewal) project by the Scottish Office. GEAR was a project to improve the social and economic fabric of the eastern inner city area of Glasgow, involving four principal participants, Glasgow District Council, Strathclyde Regional Council, the Scottish Special Housing Association, and the Agency. However, it was widely perceived as a response to political problems facing the then Labour government,[63] and the Agency was reluctant to extend its role into areas not strictly concerned with economic development[64]. At its commencement, GEAR was a project without precise objectives or any financial or time limits. Subsequently, in 1979 and 1980, the Agency was asked to lead two 'Task Forces' involving local authorities and private businesses, to stem economic decline in the Garnock Valley and Clydebank, areas that had experienced the closure of large-scale manufacturing operations, and were in receipt of special government aid. It would appear to have been the comparative success of these operations that led the Agency to instigate its own series of area projects, on a model previously employed in the United States[65]. These projects, in many respects, represent the antithesis of GEAR in that they are embodied in detailed agreements drawn up at the commencement of the projects by all parties concerned, and outlining the financial commitments of each over a fixed period of time, at the fulfilment of which the Agency withdraws from the area. Each project is entered into only after extensive preliminary study of the area to identify existing business facilities, and potential fields of expansion, and involves the setting up of a project team, including Agency staff, in the locality to monitor and encourage development. The Agency has also helped prepare and fund a number of 'self-help' area initiatives, co-ordinated by local indigenous bodies, customarily an enterprise trust.

As mentioned above (section v Expenditure), area projects now consume a significant proportion of the Agency's total resources. Over £88 million had been spent by March 1983 on nine Area Projects,[66] and the Agency estimates an expenditure of £200m on current projects over fifty 'project-years'[67]. However, Agency policy is not to increase the number of projects in which it is involved; new projects will only be entered into following withdrawal from others[68].

f) Inward Investment

The SDA has an obligation under the Guidelines given to it by the Secretary of State to promote Scotland as a location for industrial investment from abroad. However, it initially found its role difficult to define in the context of the other Scottish bodies involved in similar work, for example, the local authorities, New Town Development Corporations and the Scottish Council (Development and Industry). The latter is a body controlled by a Board made up of representatives of local government, private business and trade unions, the efforts of which toward attracting investment and promoting exports were, at one stage, financially assisted by the Agency[69]. However, in 1977, an agreement was reached by which the Council's inward investment activities would be gradually assumed by the Agency, which had established offices in New York, San Francisco and Brussels by 1979. However, the Select Committee on Scottish Affairs, which investigated the attraction of inward investment to Scotland in the 1979/80 parliamentary session, was critical of the Agency's promotional work, and recommended that its separate presence abroad be merged with existing consular activities, and that it concentrate on co-ordinating contact with potential inward investors once they have arrived in Scotland, but without any extra powers[70]. The report aroused controversy in that it was thought to be expressing the traditional hostility to the SDA of the Scottish Conservative MP's who dominated the committee[71]. The government rejected the Committee's recommendation that the SDA's overseas offices be closed, and, instead, established a new body, Locate in Scotland, acting as an associate organisation of the SDA but run jointly by the SDA and

SEPD[72]. LIS was delegated to act as the focal point of all Scottish inward investment promotion, and provision was made for it to report direct to government, through a Steering Group, chaired by the Secretary of State and comprising a junior minister, two senior civil servants, and the Chairman and Chief Executive of the Agency. LIS claims to have attracted 78 projects in the first two years of its existence, amounting to investments worth £420 million[73].

g) Planning

The SDA began its operations with a separate Strategic Planning Unit, which in 1981 became the Planning and Projects department, incorporating the functions of corporate planning, industrial programme development, area programme development and industrial development projects, with emphasis on the health care and biotechnology industries. In 1979, the Agency published a five-year Corporate Plan, which was based on selected industrial growth sectors, such as electronics. In 1981, it published its plans for allocation of capital funds over the subsequent three years, and also produced reports on the health care and biotechnology industries, two sectors which the Agency had identified as being ones in which Scotland possessed certain advantages, and had potential for long-term job creation. Of late, this trend toward industry-wide reviews has continued with further studies of the printing and publishing, forestry products, oil and gas, and textile and knitwear industries, carried out in co-operation with representative bodies in the industries concerned.

The importance of strategic planning as an Agency function has increased with the expansion of work on area projects. Not only is there a need for planned development in the chosen areas, but the act of selecting areas for development involves planning on a wider geographical scale. The first eight area projects for example were all concerned with 'brown field' or traditional urban sites. There have perhaps understandably been complaints from areas such as North East and South West Scotland that they are being neglected in favour of the central Scottish industrial belt.

Welsh Development Agency

1. Statutory purposes functions and powers

The statutory authority of the WDA is derived from the Welsh Development Agency Act 1975, which, as it was drawn up in conjunction with the Scottish Development Agency Act of the same year (see above) bestows the WDA with purposes, functions and powers almost identical with those listed above in connection with the SDA[74]. The agencies share identical aims, and their functions only differ in that the WDA has the additional responsibility of promoting Wales as an industrial location, though in practice, the SDA also acts in this capacity. The changes which the government introduced after 1979 to the SDA's functions and powers also applied to the WDA, as did the changed Guidelines introduced in December 1979. In 1977, the WDA published 'Statement of Policies and Programmes', which defines the WDA's role in relation to seven broad programmes:

a) Industrial investment
b) Advisory services to enterprise
c) Small business development
d) Promotion and publicity
e) Provision of industrial sites and premises
f) Industrial infrastructure
g) Environmental improvement

It also laid down planned expenditure targets for a five year period to 1981/2, which reflected the Agency's commitment in paragraph 48 of the document that 'development of the industrial investment programme will have the WDA's priority for the next few years'[75].

ii) Control

The WDA is formally accountable to Parliament through the Secretary of State for Wales, its sponsoring department being the Welsh Office. Its activities have periodically been subject to the scrutiny of the House of Commons Committee of Public Accounts, and the House of Commons Committee on Welsh Affairs[76]. The members of the Agency's Board are, like those of the SDA, appointed on renewable four-year terms by the Secretary of State. The Agency's accounts are audited annually by the Comptroller and Auditor-General, who reports to the House of Commons Public Accounts Committee. The Secretary of State, through the Welsh Office, issues Guidelines for the day-to-day running of the Agency, which in turn submits to the Welsh Office expenditure estimates. The Secretary of State also has the same powers to issue directives to and transfer capital and holdings from the Agency as listed above in connection with the SDA.

iii) Budget and source of finance (see also Table 10)

The WDA is funded similarly to the SDA, through grant-in-aid, Public Dividend Capital (on which dividends can be paid) and borrowings from the National Loan Fund (on which interest is due). Like the SDA, it has made use of low-cost ECSC and EIB loans, and has in recent years, had significant return from the sale of property and investment assets.

Table 11 WDA Expenditure 1976/7 - 1982/3

	76/77		77/78		78/79		79/80		80/81		81/82		82/83	
	£	%	£	%	£	%	£	%	£	%	£	%	£	%
Industrial Investment	0.3	1.4	4.7	13.9	4.5	9.3	2.5	4.2	0.1	0.1	1.0	0.1	5.7	7.1
Factories and industrial estates	13.0	59.1	14.1	41.7	25.9	53.4	38.7	64.3	59.9	72.3	66.3	70.4	46.2	57.2
Environmental	1.7	7.7	6.3	18.7	8.1	16.7	7.7	12.8	9.3	11.2	11.2	11.9	10.4	12.9
Other expenses	7.0	31.8	8.7	25.7	10.0	20.6	11.3	18.7	13.6	16.4	15.7	16.6	18.4	22.8
Total	22.0	100.0	33.8	100.0	48.5	100.0	60.2	100.00	82.9	100.0	94.2	100.0	80.7	100.0

Source: WDA Annual Reports

Table 10 WDA Source of Funds 1976/7 - 1982/3

	1976/7	1977/8	1978/9	1979/80	1980/81	1981/82	1982/3
Grant-in-aid	11698	18616	33395	45127	65122	73984	53700
Public Dividend Capital	14	1766	3063	907	94	1052	1635
National Loan Fund	256	3000	1978	2445	421	1492	977
ECSC	-	-	-	-	-	491	251
European Investment Bank	-	-	-	-	-	-	303
Sale of assets etc.	676	1196	983	1034	1605	3754	5675
Investment and loan receipts	-	2	1024	1128	961	956	1132
DLT reserve	-	6	178	-	-	-	-
Other	2899	1516	-	-	-	-	-
Total	15543	26102	40621	50641	68203	81729	63673

Source: Extracted from WDA Annual Reports

iv) Internal Structure (See also Table 12 and Fig 2)

Until 1983, the Agency's basic internal structure had been unmodified since its inception, comprising three divisions for 'construction and development', 'industry and investment', and 'organisations and operations'. However, in that year, reorganisation took place and four divisions were created. Construction and development functions, mainly concerned with factory provision and land renewal, were taken up by an Operations division; the work of the old Organisation and Operations Division was divided between the Services Division, which also took on the small business advisory service from the Industry and Investment Division, and the Marketing and Corporate Planning Division, which became responsible for industrial promotion. The remit of the Industry and Investment Division remained broadly unchanged. Also in 1983, the government created an associate organisation of the WDA, WINvest, to carry out similar functions to those of LIS in Scotland, namely the co-ordination of inward investment activity in Wales. This superseded the old system under which the WDA had subsidised a body of businessmen, trade unionists and local authority representatives, the Development Corporation for Wales, to carry out promotional work overseas. In 1982, the Agency launched its own venture capital subsidiary, Hafren Investment Finance, the directors of which were senior Agency staff and Board members (see below, Investment). In 1984, a further associate organisation, WINtech (Wales Innovation and Technology) was established ' to encourage businesses in Wales to profit from new technology and to act as a link between industry and university'[77]. The Agency also reorganised its geographical activities into 8 regional offices, each under the direction of a regional manager.

In the light of the growing private involvement in the Agency's operations, it is apparent that a number of changes have taken place in the membership of the WDA Board, which is appointed by the Secretary of State. During the period from 1 January 1976 to 31 March 1982, six new members were appointed to the Board, to replace those whose contracts had not been renewed. Dividing the backgrounds of Board members into three broad categories; private sector, public sector and trade union, it can be calculated that 4 members of the original board came from the private sector, four from the public sector and two from the trade unions. The eleventh Board member, Lord Parry of Neyland, described by the Agency as 'a writer and broadcaster'[78], could not be so readily categorised, and seems to have been appointed in order to provide geographical representation for Pembrokeshire and South-West Wales. Using the same three categories, by March 1982 private sector representation had increased from four to seven, that of the public sector had declined from four to three, and there remained one trade union representative. Of the six new members, Stephen Gray, who became chairman in 1980, had been manager of Shotton steelworks under both private and public ownership, but had resigned from BSC to join a firm of industrial management consultants; Douglas Badham and Dr Leslie Morgan represented the Development Corporation for Wales and the DBRW (MWD) respectively; Hugh Rees, a chartered surveyor and estate agent was a director of the Abbey National Building Society and a former Conservative MP; Donald Walters was a deputy managing director of Chartered Trust Ltd. and Chairman of the Welsh Conservative Party since 1977, and Robin Herbert was the

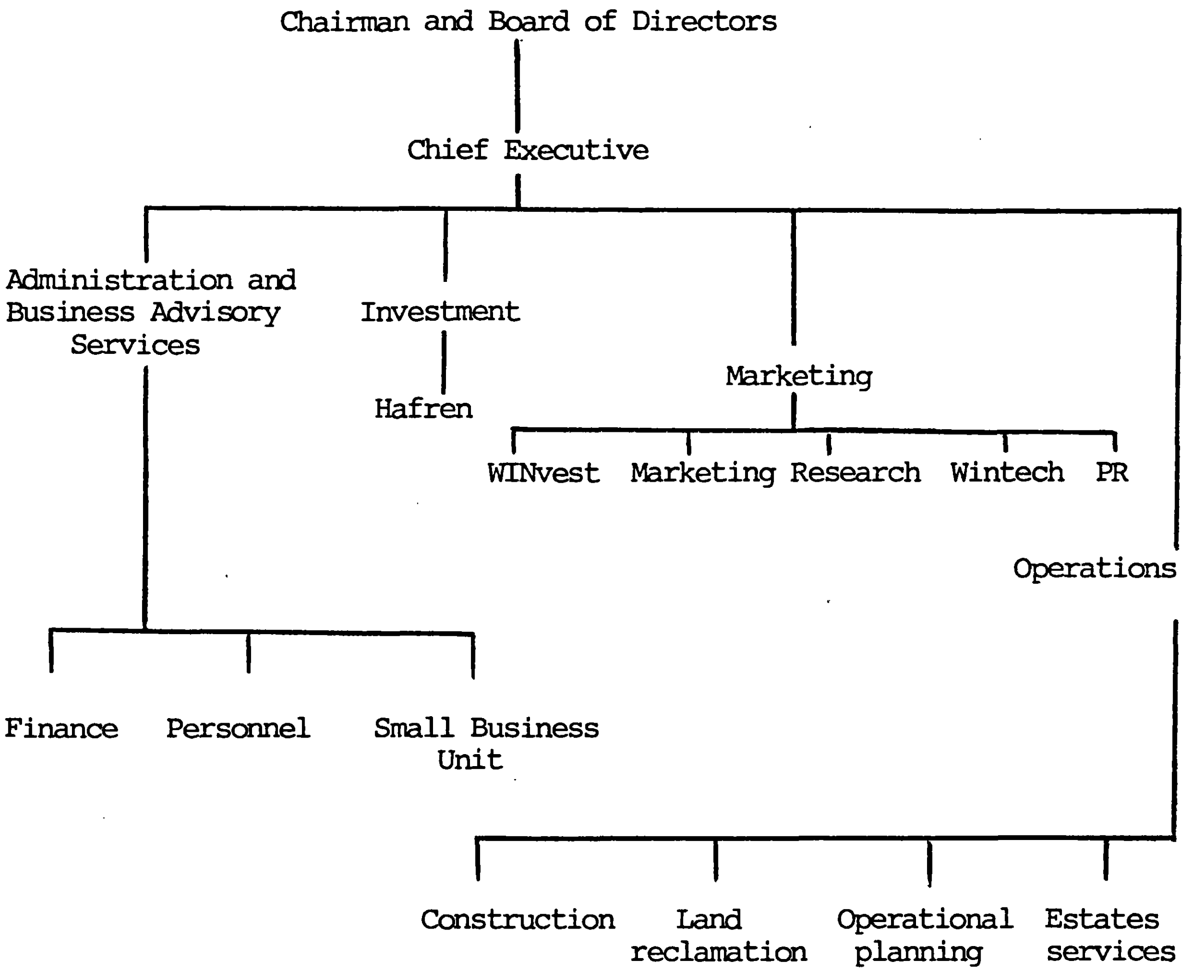
Table 12 WDA - Changes in Board Membership 1976/7 - 1982/3

	Central government	Local/regional government and other public institutions	Public	Employers	Financial institutions and other non-industrial organisations	Private	Union	Other	Total
1976/77	-	4	4	2	2	4	2	1	11
1977/78	-	4	4	2	2	4	2	1	11
1978/79	-	5	5	2	2	4	2	-	11
1979/80	-	3	3	3	2	5	1	-	9
1980/81	-	3	3	3	3	6	1	-	10
1981/82	-	3	3	3	3	6	1	-	10
1982/83	-	1	1	4	4	8	1	-	10

Source: WDA Annual Reports

Figure 2

Welsh Development Agency - Internal Structure (as at 31/3/83)



Source: WDA Annual Report 1982/8

chairman of the merchant bankers, Leopold Joseph Holdings, a director of the National Westminister Bank, and a prominent Welsh landowner. Though the composition of the board was never intended to represent local community interests, in its original form it did reflect a tripartite division of responsibility between government, employers and trade unions. The current predominance of private interests on the board is a product of the Conservative government's desire to see greater private sector involvement in the work of the Agency[79].

v) Expenditure (see also Table 11)

The expenditure patterns of the WDA since it commenced operations on 1 January 1976 have, like those of the SDA, been dominated by expenditure on factory construction and industrial site development. These patterns have not conformed to the projections referred to above ((i) statutory purposes, functions, and powers) in the 'Statement of Policies and Programmes', which envisaged 31% of total expenditure being allocated to a combined programme of industrial investment, small business support, and industrial promotion, 44% to the provision of industrial sites and premises, and 25% to land reclamation and environmental improvement[80]. In fact, as the table of actual expenditure shows, only once over the first seven years of the Agency's operations did expenditure on investment rise above 10% of total annual expenditure. This was in 1977/78, the same year that expenditure on factory provision dropped below 50% of total expenditure, for the first and only time so far. However, the financial years 1981/2 and 1982/3 have seen a decline in expenditure on factory provision and land renewal in real terms, and a corresponding rise in monies allocated to industrial investment, and other activities such as small business services, publicity and industrial promotion.

vi) History

a) Origins

Unlike the SDA, the WDA was not formed as a result of continuing pressure for such an authority in Wales. It has already been noted above (Chapter 1) that immediate demands came from Welsh Labour backbenchers, concerned that the government's commitment to a Scottish agency should be extended to Wales in order to outflank nationalist politicians at the October 1974 election. Indeed, it had been the nationalist party Plaid Cymru alone of the major parties that had previously called for a Welsh economic development authority, e.g. in 1970, in its 'Economic Plan for Wales'[81]. The Wales TUC (established in 1974) and CBI (Wales) were involved in discussions with government over the structure and operating criteria of the Agency, though both expressed concern over its eventual composition, the CBI (Wales) opposing its powers to take equity in companies,[82] and the Wales TUC believing it to be under-financed[83]. In addition, Welsh local authorities feared that it would encroach upon their activities[84]. The Secretary of State for Wales addressing the House of Commons on the Welsh Development Agency Bill stated that 'in the short-term the proposals for an Agency cannot be of direct help'[85] though his deputy called the WDA 'an imaginative proposal which can contribute speedily and effectively towards the creation of a better and more secure way of life for all the people of Wales'[86]. However, the then Shadow Secretary, Nicholas Edwards described the WDA as a 'Frankenstein's monster' and an 'extension of Bennery in Wales'[87]. On the commencement of its operations the WDA took over the work of the Welsh Industrial Estates Corporation and the Derelict Land Unit of the Welsh Office. In 1977, it absorbed the Welsh division of CoSIRA, on the formation of the DBRW.

b) Industrial investment

In its first years of operation, the Agency's industrial investment role was considered by some to have been operated too cautiously, particularly in comparison with that of its sister organisation, the SDA, which it was pointed out had created eighteen wholly-owned subsidiaries in its first three years, whilst during the same period the WDA had only established one majority holding[88]. Others have, however, challenged this, arguing that industrial investment by the WDA has merely been diversified amongst large numbers of smaller companies, which nevertheless represent high-risk investments[87]. It has further been suggested that the combination of a number of investment failures, in particular that of P Leiner Ltd., a £2m Agency investment, and the advent of a Conservative government, keen to reduce industrial investment to a secondary role in the WDA's activities, brought about a cut-back in expenditure on the function. By 1981/2, industrial investment was running at approximately 1.0% of the total Agency budget, which in itself, represented an upturn from the previous year, 1980/81, when only £100,000 (or 0.1% of total expenditure) was invested. During the period 1976/9 industrial investment equalled 9% of total expenditure, whilst in the three years 1979/80 to 1981/2 it amounted to only 1.5%. These figures would appear to suggest that the decline in the industrial investment role has been due to the revision of government guidelines to the Agency under the Conservative administration. As the WDA's 1980/81 report states 'the government now regards the Agency's investment róle as complementary to other functions', and has imposed upon it 'a duty to dispose of investments as soon as practicable' as well as requiring it to 'refrain from making an investment if private sector funds can be found to be available'[30]. In addition, in November 1981, the Secretary of State issued a revised financial duty for industrial investment which requires the Agency to aim to achieve over a five-year rolling period a cash return at least equal to the cost of government borrowing over the same period. A target is also agreed annually between the Agency and the Welsh Office, and expressed as a percentage of the total of National Loan Fund loans made to the Agency and outstanding Public Dividend Capital. All this has obviously had the effect of narrowing the Agency's investment criteria and reducing its ability to provide the higher risk capital which was its originally-stated intention. Yet there is evidence that this failure to invest in Welsh enterprises pre-dates the change of government in 1979. In its Statement of Policies and Programmes published in 1977, the Agency declares that 'development of the industrial investment programme will have the WDA's higher priority for the next few years'[91], and in its first Annual Report, 1976/7, that its role in respect of investment 'is seen as particularly important in providing equity, loan or loan guarantee assistance to smaller, and medium sized enterprises and particularly in higher-risk situations'[92]. In accordance with this policy, the Agency projected in the Statement that 31% of total expenditure over a five-year period would be spent on industrial investment and related activities. However, during the financial year 1978/9 actual expenditure on industrial investment fell to 9.5% of total expenditure, or £4.5m, a drop in money as well as percentage terms from the previous year. It would, therefore, seem fair to conclude that the relatively small amounts of money spent on industrial investment in recent years have not resulted solely from policies introduced by the Conservative government.

An understanding of the Agency's policy with regard to the investment function is central to any understanding of the history of the organisation as a whole, but such policy has proved difficult to define. As an example of this, one can contrast two statements made by the late Ian Gray, then Chief Executive of the Agency; the first made in evidence to the Wilson Committee in 1978 that 'as the years go on, I do not expect we will hugely increase our physical spending on premises. I think we will tend to produce about the same volume of building and engineering works ancillary to it, although it will cost more even on moderate inflation. But in the investment field, my colleagues and I on the board have very much in mind a substantial increase in the investment figures'[93]. Two years later, before the House of Commons Select Committee on Welsh Affairs, he stated that 'the view of the Board would be that it (investment) is still an important function. But from the very beginning, we have in practice operated investment with very few exceptions....very much more as a complement to the building and civil engineering function than otherwise'[94]. However, with the publication of a five-year corporate plan in 1984, it would appear that investment in private industry will once again become a key element in WDA strategy. This view is supported by developments such as the creation, in 1982, of a wholly-owned WDA subsidiary, Hafren Investment Finance, to provide high-risk projects, particularly in high-technology fields, with venture capital support up to £100,000. In the following year, the directors of Hafren were given responsibility for a further fund, Superhafren, which was able to make investments of up to £500,000. In 1985, the Agency established in conjunction with the private Development Capital Group, the Welsh Venture Capital Fund, geared to support investment projects by unquoted companies requiring between £25,000 and £500,000 and drawing its capital from Welsh local authority pension funds and City institutions.

The package nature of the WDA's new investment role has been illustrated by the financial arrangement made with the Parrot Corporation, an American company, which in 1984 announced plans to establish a fully-integrated floppy disk manufacturing operation in Cwmbran, Gwent. This investment decision was the result of a financial support package drawn together by the WDA, which, as well as subscribing to £1m of the new company's equity issue, persuaded the Legal and General Assurance Society (£700,000), CIN Industrial Investments (£700,000) and Commercial Union (£300,000) to participate, which, combined with £300,000 put up by the company's management team, provided the company with security for a £2m loan for the purchase of plant and machinery. Regional development grants, and Welsh Office financial assistance made the total investment up to £7m, excluding a £2.25m, 57,000 sq. ft. factory which the Agency guaranteed to provide.

In an extreme form, the Parrot case shows the Agency operating an expansive investment policy, whilst at the same time conforming with the government's desire to introduce the private sector into the activity. In this case also, investment and factory building functions are drawn together in the provision of a single package, a trend to which the Agency commits itself in the 1984 Corporate Plan.

Ironically, one year after this pioneering 'syndicated' investment was made, the company had to be bailed out by further capital injections, amid much acrimony amongst investors concerning the WDA's role in the deal. The matter was the subject of police and parliamentary investigation.

c) Factory provision

The function that has absorbed the chief share of Agency expenditure during its period of operation (£264.1m during the financial years 1976/7 - 1982/3, or 62.5% of total Agency expenditure over this period) has been that of the provision of factories and industrial estates. In its evidence to the House of Commons Select Committee on Welsh Affairs in 1980 the Agency described it as its 'strongest and most effective means of providing opportunities for employment'[95]. By means of five general programmes of factory construction, and five special programmes in the steel towns of Newport, Port Talbot, Shotton and Ebbw Vale, the Agency completed, in its first five years of existence some 2 million sq. ft. of factory space, as well as another 1 million sq. ft. which had been started by the Welsh Industrial Estates Corporation. The building of advance factories as a means of industrial development has not been without controversy in the past, particularly in the 1960's, when many lay vacant, and similar problems have affected the WDA programme, which has been carried out during a period of recession. In 1982, for example, 15.2% of WDA factory space was reported as standing vacant[96]. The risks inherent in this field of activity have also been illustrated by the outcome of a project to develop a 400,000 sq. ft. bespoke factory for Hoover in Merthyr, begun in 1978. This represented the Agency's largest single factory investment, £10 million in total, but although Hoover honoured its contractual obligation to take up the factory, the company could not afford to expand into it. By 1984, the Agency had appointed professional consultants to find appropriate customers for the property, in a redeveloped form. It had also reduced expenditure on factory provision, and altered the emphasis of its programmes from speculative advance factory development to the provision of small workshops and 'made-to-order' facilities, such as those provided for the Parrot Corporation (see above, b) investment).

d) <u>Environmental improvement and land renewal</u>

The WDA took over responsibility for environmental work in Wales from the Derelict Land Unit of the Welsh Office and the function has accounted for £54.7 million, or 13.0% of the Agency's total expenditure in the years up to and including, 1982/3. The extent of industrial dereliction in the South Wales Valleys has meant that the bulk of activity has been concentrated in the South-eastern counties. 33.5% of programme expenditure over the first five years of the Agency's operations was spent in Gwent and 29.5% in Mid Glamorgan.

However much of the essential safety work relating to coal-tips has now been completed, and the Agency appears likely in future to scale down expenditure on environmental projects, whilst integrating them into broader industrial development 'packages'. Indeed, this process has already begun, and its effects felt in areas such as the Rhondda Valley where in 1984, work came to a halt on 25 of the 38 land reclamation projects being carried out in the valley by the WDA in conjunction with Rhondda Borough Council, as a result of the Agency's reduction in grant allocation[97].

e) Inward Investment

As mentioned above (iv, internal structure) the Agency originally carried out its statutory responsibility 'to promote Wales as a location of industrial development', by subsidising the work of the Development Corporation for Wales, a body directed by representatives of local authorities, businesses and trade unions, whose functions included organising promotional tours and maintaining offices abroad. However, this arrangement was severely criticised by the House of Commons Select Committee on Welsh Affairs, which considered the DCoW to be unaccountable, in respect of the public money it received from the WDA and local authorities, and inefficient, in that its presence caused confusion in the minds of potential investors[98]. With the need for a 'one-door' approach in mind, the WDA set up WINvest as a wholly-owned subsidiary, combining the overseas promotional and marketing activities previously carried out by the DCoW and the inward investment responsibilities of the Welsh Office and WDA. WINvest's early successes have included the attraction of Comdial Communications and Parrot Corporation to South Wales, and a Swedish pulp mill to the North.

f) Planning

The problem that the Board of the WDA faced, when it met for the first time in January 1976, was how the Agency should fulfil its statutory functions, which necessitated significant involvement in the Welsh economy, without alienating local interest groups. After the meeting, the Board's chairman, Sir David Davies, whilst assuring the Press that the Agency was not in the business of rescuing 'lame ducks', was also reported as stating that one of the first aims of the Agency would be to draw up an economic and industrial strategy for Wales as a context for spending its budget[99]. Planning of this nature accorded well with the trend toward selective rather than blanket regional assistance, which was operating on a national scale through clauses 7 and 8 of the 1972 Industry Act, and through the National Enterprise Board's policy of assisting specified industrial sectors. Sir David argued that regional planning was necessary because 'money alone would not solve the problem. It has to be channelled in the right direction'[100]. However, despite its apparent importance, by the end of the year, the WDA had conceded its strategic planning role to the Welsh Office. The Agency's chief executive, Ian Gray, stated that 'even if we wanted it, it would not be practicable for us to produce an economic plan for Wales. So many elements in such a plan would be totally outside our control'[101]. Instead, a three-way split of planning responsibility was introduced between the Welsh Office, local authorities and the WDA. The county councils were to produce overall land use and transportation strategies which were to be co-ordinated by the Welsh Office, and industrial strategies, to be co-ordinated by the WDA[102]. This was reported as resulting in confusion and delay. The county authorities complained that they had been given no overall context within which they could place their ideas for development. Some were even refusing to draw up plans until after local elections in the following year, and those who had submitted them to the Welsh Office were informed that it would take a minimum of two years to adjudicate them[103]. One structure plan which was produced in 1976, that of South Glamorgan, described the need for planning at an all-Wales level. 'In the absence of an up-to-date regional plan, the potential for dispute between authorities in South Wales is heightened. South Glamorgan needs clearer guidelines on what sort of jobs it should be aiming for, and how far resources spent accommodating some categories of employment e.g. dispersed civil servants pre-empt resources that could be spent elsewhere in the county e.g. on attracting new manufacturing jobs for redundant steel workers. Problems such as these can only be resolved when there is a clearer definition of the role each part of South Wales is expected to play in the regional economy'[104]. In January 1977 the Agency produced its own 'Statement of programmes and policies' referred to above but it was stated in the introduction that it was 'not intended to be an economic or industrial plan for Wales'. Though it did contain a breakdown of planned expenditure over the period 1977/78 to 1981/82, this proved to be of limited relevance to the actual levels of expenditure, and the Agency has subsequently given only the most general forecasts of its expenditure plans and priorities.

In 1984, however, the Agency published a five-year corporate plan to outline priorities for the Agency in developing tourism, building up financial institutions and encouraging private industry through injections of capital. It also planned to integrate functions of land reclamation, factory building, investment in companies and business advisory services into a single package. Geographically, the Agency identified three distinct areas for development; prime development sites such as the South Wales M4 corridor and the area along the A55 in North Wales; a second tier of outer urban areas, especially the South Wales Valleys, and rural areas, where the Agency believes that the emphasis should be on self-help[105].

Complaints from particular regions of Wales about the inequitable distribution of WDA funds across its area have been common. Dyfed County Council, for example, criticised the lack of WDA activity in areas of the county outside the operational boundaries of the DBRW[106], and the Newport MP Roy Hughes on one occasion described the assistance offered to his constituency by the WDA as a 'fleabite compared to that given to surrounding areas'[107]. In fact, over the first five years of the WDA's operations, approximately $^1/3$ of all advance factory completions were in Gwent (33.8%), compared with 13% in South Glamorgan and 4.5% in Dyfed (where the DBRW has its own separate construction programme). There are also disparities in the regional distribution of industrial investment. For example, between 1976 and 1981, net investment by the Agency in South Glamorgan was more than £2.8m, in Mid-Glamorgan, £2.2m, and in West Glamorgan, £174,000. Calculating investment per head of population on 1981 figures this amounted to £7.76p per person in South Glamorgan, £5.86p in Mid

Glamorgan, and 79p in West Glamorgan. The forecast of additional employment resulting from these investments amounted to 340 in South Glamorgan, 624 in Mid Glamorgan and 21 in West Glamorgan, a ratio of 1 job per 1115 of the population in South Glamorgan, 1 per 589 in Mid Glamorgan and 1 per 6438 in West Glamorgan. Although there are factors which prevent a completely equitable distribution of resources, such as the comparative lack of investment projects in rural areas, the preponderance of environmental hazards in the industrial South, and the lack of land available for factory-building in densely-populated areas, the WDA does not appear to have planned its expenditure on a geographical basis, but to have developed a regional focus only when directed to do so by central government, as with the BSC emergency programmes.

NIFC/NIDA/IDB

1. Statutory purposes, functions and powers

The Northern Ireland Finance Corporation was created in 1972, following the recommendation of the Cairncross study group in the previous year[108]. Under the provisions of the 1972 Northern Ireland Corporation (N.I) Order, the fundamental objective of the Corporation was 'to assist the economy of Northern Ireland by preserving the essential fabric of industry and commerce', and 'helping to establish an improved industrial structure upon which a sounder economy could be developed'[109]. The NIFC had the power to provide financial assistance to companies in the form of equity and generally aimed to improve the profitability and efficiency of industry with a view to increasing employment levels, notably in growth industries. It concentrated its efforts on manufacturing industry and some related service sectors. There was no limit to the level of equity which the NIFC could take in a company.

The NIFC was superseded in 1976 by the Northern Ireland Development Agency (NIDA) which was established under the terms of the Industries Development (Northern Ireland) Order 1976. It was modelled on the Scottish and Welsh Development Agencies that had been formed in the previous year[110], and had the aim 'of strengthening industry in Northern Ireland for the improvement of the economy'[111]. It was given powers to start wholly or partially-owned new companies, to aid existing companies through the acquisition of equity or the granting of loans, or by the provision of business advice, and to assist in marketing either at home or overseas. The Department of Commerce was granted the power to direct the Agency to invest in particular companies[112]. NIDA's activities were subject to guidelines issued by the DOC, and in 1980, these were revised, abolishing NIDA's duty to undertake rescue work at the behest of the DOC, and its commitment to furthering industrial democracy in its firms.

In 1982, the Departments of Commerce and Manpower Services in Northern Ireland were merged to form a new Department of Economic Development (DED). Simultaneously, under the provisions of the Industrial Development (Northern Ireland) Order 1982, NIDA was merged with the Industrial Development Organisation of the Department of Commerce to form the industrial development arm of DED[113]. Because the IDB is constituted as an arm of a government department rather than an independent body, it is, in statutory terms, an advisory board. The

Chief Executive is legislatively answerable to the Minister responsible for DED. Nevertheless, the IDB incorporates the powers and functions of NIDA and deals with all matters relating to industrial development, the promotion of inward investment, and job creation, in Northern Ireland. The day-to-day running of the Board accords with Guidelines issued by the Minister of State. These Guidelines stated that the IDB should draw up a strategy to encourage and stimulate industrial development in Northern Ireland. The Board published a short term strategy in March 1983, in which it set itself three main objectives:

i) to increase job promotions from 3,500 in 1982/3 to 10,000 by 1985/6 with an immediate objective of 5,000 job promotions in 1983/4.

ii) to promote in 1983/4 3,000 jobs from home industry, and 2,000 from inward investment.

iii) to strengthen companies so that the number requiring rescue will decline from year to year[114].

In addition to the functions which it took over from NIDA, the IDB also assumed responsibility for the provision and management of industrial sites, previously undertaken by the Department of Commerce, and for the administration of government grants of selective financial assistance.

ii) Control

As a result of the imposition of direct rule from Westminster in 1972, agencies in Northern Ireland have tended to be more strictly controlled by government departments than their counterparts in Great Britain. This trend has been accentuated by the establishment of the IDB within the structure of DED. Previous to this, the agencies submitted their accounts, audited by the Comptroller and Auditor-General for Northern Ireland, to the Department of Commerce, but unlike the British agencies they did not come before the House of Commons Committee of Public Accounts. Like NIDA, the IDB is governed by operating guidelines prepared for it by the Minister of State responsible for industrial development. The agencies' performance has been reviewed periodically as part of reports on broader subjects, such as those compiled by Quigley (1976)[115] and Kidd (1982),[116] but has not been the subject of extensive investigation. However, in 1984, NIDA's involvement in the disastrous De Lorean car project was scrutinised by the Committee of Public Accounts, and the Economic Development Committee of the Northern Ireland Assembly has, in the first year of its activity, taken evidence from the IDB.

iii) Budget

The IDB is financed through the Department of Economic Development which in turn derived its funding from the budget of the Northern Ireland Office. Its predecessor, NIDA, provided for it equity and loan investments through Public Dividend Capital and loans from the Consolidated Fund, with funds for administrative costs and capital expenditure being derived from the Department of Commerce. The Department was also bound to provide for any expenses incurred by NIDA in carrying out DoC directives to participate in the 'rescue' of ailing firms. The NIFC was similarly financed.

iv) <u>Internal Structure</u> (see also Fig 3)

The work of the IDB is carried out by eleven divisions, grouped into three sectors, covering inward investment, home industry and corporate services (see Fig 3). Of the four divisions of the inward investment sector, three are concerned, in various ways, with promoting Northern Ireland overseas, the International Marketing, Inward Investment and Public Relations Departments. The fourth, Corporate Finance, analyses all applications for financial assistance from local or overseas companies, and in this sense, overlaps with the work of the Home Industry Sector, which operates two Business Development Divisions to assist established businesses with information, advice and finance, a Marketing and Trade Support Division, which assists home-based companies in marketing and selling their products, and an Investment Management Division, which monitors IDB - invested companies, and runs the Rescue Unit, which identifies and where judged possible assists, companies in financial difficulties. Each sector is under the charge of a senior member of the IDB staff. The IDB's Board of Directors has twelve members, each appointed by the Secretary of State. Of the original members appointed in 1982 nine were drawn from private sector business, two from trade union organisations and one from higher education.

Both NIDA and NIFC were similarly operated under the control of government - appointed Boards of Directors.

v) Expenditure

In its first seven months of operation (ending March 31 1983), the IDB would appear to have spent a gross figure of £71.5m, which would roughly equate with suggestions at its inception that its annual budget was to be approximately £100m[119]. The bulk of this expenditure figure (£49.6m or 69% of expenditure) took the form of grants, either capital grants for new plant and machinery, employment grants or interest relief grants. Just over £10m was invested in companies by way of equity (£1.1m) or loan (£9.0m) assistance, whereas £6.9m was spent on factory-building and industrial site development.

The expenditure of NIDA and the NIFC was in contrast, concentrated on the provision of investment finance. NIDA's expenditure, for example, whilst being considerably lower than the overall annual budgets of its Scottish and Welsh sister agencies involved a greater deployment of financial resources for investment purposes, than that spent by the SDA and WDA. However, expenditure figures were inflated by the commitment of £17.75m to the De Lorean sports car project, which represented approximately 35% of the Agency's accumulated expenditure in its first five years' operation.

The NIFC, in four years, invested only one-third (£16.5m) of the nominal £50m with which it had been originally endowed. This reflected a 'drying-up' of viable projects, particularly in the latter part of its existence.

Fig 3

IDB Internal Structure (as at 31/3/83)

Board

Chief Executive

(Deputy Chief Executive)

Inward Investment

International Marketing
Inward Investment
Corporate Finance
Public Relations

(Deputy Chief Executive)

Home Industry

Business Development I & II
Marketing and Trade Support
Investment Management

Corporate Services

Board secretariat and Administration
Planning and Co-ordination
Industrial Property

Source: IDB First Annual Report 1982/3

vi) History

a) Origins

The NIFC was created in 1972, following the recommendation of the Cairncross Study Group in the previous year (see above). It had reported that a special institution should be set up to provide substantial financial resources to the private sector of industry, arguing that there was a danger that the inward investment momentum, generated in the 1960's, would be lost because of the cumulative effect of civil unrest[120]. This, it considered, justified Northern Ireland being treated as a special case for government aid.

NIDA was widely perceived to have been created as part of the Labour government's Industrial Strategy in conjunction with the National Enterprise Board, Scottish Development Agency and Welsh Development Agency[121]. It came into being against a background of a government report prepared by a team of civil servants for the Northern Ireland Secretary on the state of the province's economy. The Quigley Report painted a gloomy picture of future prospects unless there was a cessation of civil unrest, an upturn in business at a national level, and increased regional incentives. It recommended more vigorous State activity to make industry in the North more competitive in relation to the Republic, and to create 1,500 jobs per annum in state-owned businesses[122].

The formation of an Industrial Development Board to supersede NIDA in 1982 as part of a shake-up of government institutions concerned with industrial development might seem surprising in view of the fact that a government review of such institutions in 1980 had endorsed the then existing divisions of responsibility. However, in the interim period, considerable lobbying for a unified development agency with comprehensive development functions had taken place, particularly by the Northern Ireland Economic Council (NIEC) and the Northern Ireland Committee of the Irish Congress of Trade Unions [(NIC) (ICTU)][123]. There was also discontent in political circles at the comparative failure of NIDA to attract investment in relation to its rival organisation in the Republic, IDA. This discontent was accentuated by the embarrassment surrounding the failure of the De Lorean sports car project. The IDB was thus created in an attempt to match the much-vaunted 'one-door approach' provided by the IDA[124].

b) The agencies' activities

i) NIFC

As has already been described, NIFC's activities concentrated upon the provision of financial assistance to private industry. This was developed in a number of contexts, such as 'rescue operations' of the type illustrated by the 100% acquisition of Ben Sherman Ltd., an ailing textile company, and on an industry-wide scale, the establishment of new companies in order to restructure a specific industrial sector, as for example, in the case of steel stockholders, C. Walker and Sons Ltd. However, by March 1975 there had occurred a net loss of 120,000 jobs amongst the 27 companies in which it had invested, and its annual operating deficit, despite the comparatively small nature of the investment portfolio, was approaching £0.5 million[125].

ii) NIDA

NIDA's terms of reference for investment were considerably more circumscribed. It was only to take part in 'rescue' operations at the expressed behest of the Department of Commerce, which would finance any subsequent investment. All other investments were to be dealt with on a strictly commercial basis, and were to yield a 'reasonable return'[126]. NIDA, however, did inherit 33 companies from the NIFC, 9 of which were either in the hands of the receiver, or in the process of liquidation[127]. In 1978, the government, through the Industries Development (Northern Ireland) Order, wrote off £7.5m of the Agency's losses, which stemmed almost entirely from the liabilities inherited from the NIFC[128]. In its first five years of operation, NIDA invested £41m in Northern Irish businesses, but as mentioned above, a considerable proportion of this figure was taken up by the acquisition of 17,757,000 £1 redeemable preference shares in De Lorean Motor Cars Ltd. New guidelines issued by the Secretary of State in December 1979 required 'the Agency to make every effort to involve maximum participation by the commercial banking sector and other private sources' in investment projects[129], but the special problems of the Northern Irish economy appear to have been recognised in that unlike other agencies, it did not have to meet official target rates of return on its investments. During this period, the Agency became particularly active in its other industrial functions, such as the encouragement of joint ventures, or 'business marriages', of marketing efforts, and of product-related research and development. However, by 31 March 1981, the accumulated deficit on the investment portfolio had reached £18.5m [130]. Only four of the Agency's thirty-seven investments were in liquidation, but considerable difficulties were being experienced with the De Lorean project. When, in December 1981 the UK government refused to renew its loans to the company, which consequently went into receivership, the NIDA investment in De Lorean represented approximately 35% of its total expenditure on investment since its inception in 1976.

iii) IDB

The breadth of the IDB's activities can be shown by reference to the above section on its internal structure, which reveals a network of eleven divisions, grouped into three sectors which cater for the attraction of inward investment, support for home industry and the provision of corporate services.

Unlike other UK agencies, the IDB is able to provide grants to industry, and administers selective financial assistance in the form of capital, employment, interest relief and other grants. This arrangement is designed to be particularly helpful to potential inward investors. Indeed the field of inward investment represents perhaps the most controversial area in which the IDB operates. This is because the failure of projects such as De Lorean, and the difficulties associated with the development of the Lear Fan aircraft, have served only to increase political demands for inward investment. Consequently, the IDB have placed considerable emphasis on this function, establishing in 1983 a group called the Northern Ireland Partnership, comprising representatives of banks, chambers of commerce, trade unions and academic institutions, the purpose of which is to use 'non-professionals' to promote the image of Northern Ireland as a suitable industrial location abroad. Political pressure on the IDB to achieve positive results in the area mounted when it was announced that only 550 jobs had been promoted through inward investment in 1983/4 out of a target figure of 2,000[131].

Unlike other UK agencies, the IDB administers selective financial assistance schemes for the government, which differ considerably from those available in Great Britain. This means that they can be negotiated as part of an overall investment package. In order to develop contact with industry the IDB has established a client executive of field officers each responsible for a number of companies in a particular sector of industry. Each of the 400 manufacturing companies in Northern Ireland which employ more than 50 personnel are covered by the scheme, through which information about the services of the IDB can be disseminated, and assistance and advice can be given to companies wishing to expand. As well as offering advice on marketing and overseas trade, the IDB has established a division with special responsibility for monitoring the performance of invested companies. Incorporated in this division is the Rescue Unit, which provides short-term finance to companies experiencing severe financial difficulties, pending a full review of the company's prospects. If this review comes to a favourable conclusion, on the basis of commercial judgements, then long-term aid will be arranged. In the first seven months of its existence, the IDB had handled 30 rescue cases, ten of which had received long-term assistance, and five temporary help[132].

The IDB also became aware of the lack of indigenous financial institutions in Northern Ireland capable of supplying investment capital to industry. However, it was reluctant to be a participant in such a fund, and when in May 1984, the announcement was made of the setting-up of Northern Ireland's first venture capital fund, Northern Ireland Venture Capital, it was revealed that the funds would be operated in conjunction with two private companies, Electra Risk Capital and Global Investments Trust[133].

Unlike its predecessors, the NIFC and NIDA, the IDB has responsibility for the provision of industrial sites and premises, and the management of all property inherited from the Department of Commerce. Of the 5,500 acres of land involved in this transfer 2,500 were unallocated, in March 1983, and overall approximately 12% of the floorspace in the Board's portfolio was either vacant or awaiting surrender[134]. As with other agencies, the government is encouraging the IDB to involve the private sector more closely in the industrial property sector.

As has been been mentioned above, the IDB published in March 1983, a short term strategy which listed three immediate aims concerning job promotion and the strengthening of Northern Irish industry. The Strategy outlines four areas upon which the Board's activities should be centred, support for home industry, the attraction of 'profitable companies' from overseas, the building up of Northern Ireland's image as an industrial location, and the provision of competitive incentives for industry to invest in the area. The guidelines issued to the Board by the Secretary of State gave it responsibility for producing a long-term strategy also, and the Board's failure to do so in the first eighteen months of its existence drew adverse comment from the (NIC)ICTU, amongst others, it being felt that that the drawing-up of such a strategy was being hampered from within by disagreements between IDB employees and civil servants in the DED[135].

HIDB

i) Statutory purposes, functions and powers

The HIDB was established under the terms of the 1965 Highlands and Islands Development (Scotland) Act 1965[136], and its powers extended three years later by the passing of the Highlands and Islands Development (Scotland) Act 1968[137]. Its purpose, according to the 1965 Act, was 'assisting the people of the Highlands and Islands to improve their economic and social conditions' and 'enabling the Highlands and Islands to play a more effective part in the economic and social development of the nation'[138].

Its functions were to be directed toward 'preparing, concerting and promoting, assisting and undertaking measures for the economic and social development of the Highlands and Islands'[139]. The powers conferred upon it included the power of compulsory purchase, the construction of buildings and provision of services, the power to make grants and loans and to advise those engaged in business. It was originally thought that the Act gave the Board powers to take equity investment in Highland companies, but legal opinion advised that purchase of equity shares might be considered 'ultra vires'. Hence, in 1968 the government introduced legislation which gave the Board power to form or promote a company, and to acquire, hold and dispose of any stocks and shares, which were added to those provisions in the 1965 Act which had given the Board powers to acquire and carry on businesses.

The 1965 Act gave the HIDB responsibility for a geographical area covering the seven 'crofting' counties of Argyll, Caithness, Inverness, Orkney, Ross and Cromarty, Sutherland and Zetland, and this area was extended in 1975 under the Highlands and Islands Development (Scotland) Act 1975[140] to include the county of Nairn, the District of Cromdale, the Burgh of Grantown-on-Spey and the Islands of Arran and Bute. In 1979 the islands of Great and Little Cumbrae were further added by way of similar legislation[141].

ii) Control

The Board is formally accountable to Parliament through the Secretary of State for Scotland. It is also subject to directions of a general character from the Secretary of State for Scotland, though in practice these have never publicly been issued. Its accounts are audited annually by the Comptroller and Auditor General and presented to the House of Commons Public Accounts Committee which in turn can make recommendations concerning the HIDB's activities[142]. The Board is also regularly asked to submit evidence to House of Commons Select Committees, when enquiries are being conducted in fields relevant to the Board's work such as the attraction of inward investment, or rural transport services[143].

The Board was originally supervised by the Scottish Office's Department of Agriculture and Fisheries for Scotland (DAFS), though in 1968 this responsibility was transferred to the Scottish Development Department (subsequently, the SEPD, and latterly, the IDS). Under the 1965 Act, provision was made for the establishment of a Highlands and Islands Consultative Council, made up of representatives of various professions, interest groups and local authorities in the region, which meets regularly to discuss matters relating to the Board's activities, to comment on the Board's policies, and to proffer advice on the basis of these deliberations.

iii) Budget (see also Table 13)

The Board is financed by grant-in-aid borne on the vote of its sponsoring department, which is annually topped up by receipts from its own activities, such as loan repayments and the sale of assets and investments. In the first seventeen months of its existence, up to March 1967, the Board spent approximately £860,000[144], whereas in 1982/3 it received over £27.5m in grant-in-aid alone[145]. However, in the following financial year, 1983/4, the government cut approved expenditure by 2% or £578,000, as part of its policy to restrict the Public Sector Borrowing Requirement (PSBR). The 1984/5 'core' budget for the Board is £26.7m. To this there is added £30m for the special EEC-assisted Integrated Development Programme for the Western Isles; and £3.5m being the final tranche of a special £10m package to alleviate problems arising from the closure of the Invergordon smelter.

iv) Internal structure

The internal operations of the HIDB are overseen by a Board of four full-time executive members (including Chairman and Deputy Chairman) and three part-time members, all appointed by the Secretary of State for Scotland for a normal term of five years. The four full-time members have direct responsibility for the Board's eight functional Divisions, which are Policy Research, Legal, Administration, Fisheries, Industrial and Business Development, Finance and Management Services, Tourism, and Land Development.

v) Expenditure

The main items of Board expenditure are (as at 31/3/83) grants, the acquisition of shares and loans, commissioning of research surveys and publicity, salaries and administration and projects and development schemes. The largest single item of expenditure would appear to be the dispensing of grant assistance, under the terms of Section 8 of the HIDB Act. When the provision of loan and share agreements is added to this total, it can be shown that the HIDB has approved over £175 million in financial assistance in the ten years to 1983 (at 1983 prices). The spread of this assistance between the various sectors of economic activity is shown in Table 14.

Table 13 HIDB Grant-in-aid account 1977/8 - 1982/3

	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83
Grant -in-aid	10400000	12700000	17432000	20021000	22942000	27216000
Other receipts	2400567	2915069	3496193	3692776	4344869	5161567
Total	12800567	15615069	20928193	23713776	27286869	32377567

Source: HIDB Annual Reports

Fig 4 HIDB Internal Structure 1984
(figures in brackets indicate number employed in the Division)

- Board
  - Full-time member
    - Finance and Management Services (74)
  - Chairman
    - Policy Research (14)
      - Legal (12)
  - Deputy Chairman
    - Administration (85)
      - Fisheries (20)
        - Industrial and Business Development (29)
  - Full-time member
    - Tourism (17)
      - Land Development (11)

Source P. Breathnach et al 'Aspects of rural development in the Scottish Highlands and Islands', St. Patrick's College, Maynooth, 1984.

Table 14 HIDB expenditure by function and selected case types 1974 - 83 (at 1983 prices)

	Grants (£)			Loans and Shares (£)		
Land development	8	911	650	14	395	096
of which: Farm development	4	232	865	10	365	471
Horticulture		669	484		732	670
Fisheries	10	688	633	29	835	748
of which: Fishing boats	2	685	109	25	518	080
Fish farming	7	169	508	3	095	022
Manufacturing and processing	19	517	553	24	499	974
of which: Fish processing	4	107	155	3	530	695
Boatyards and marine engineering		877	647	1	671	667
Crafts	1	675	683	2	081	205
Construction	2	961	312	3	190	091
Tourism	34	545	277	15	040	569
of which: Hotels	14	595	035	6	902	157
Other tourist accommodation	11	188	260	5	359	098
Catering	1	940	607	1	035	293
Recreation and Tourist Amenities	6	487	477	2	724	673
Other Service Industries	6	264	819	5	935	137
Total	82	889	244	92	896	615

Figures relate to assistance approved by the Board, not payments.

Source: HIDB 18th Annual Report 1983

Table 15 HIDB expenditure 1982/3

	(£000) 1982/3
Grant assistance	8,717
Equity and loan investment	6,321
Research and publicity	2,582
Salaries and administrative costs	3,754
Projects and development programmes	3,188
Total	24, 562

Source: HIDB 18th Annual Report 1983.

Table 16 Sectoral Distribution of HIDB Financial assistance, 1965-80

(£m)	1965-70	1971-75	1971-80[1]
Manufacturing	32	24	24
Tourism	29	32	29
Fisheries	21	24	13
Agriculture	5	8	13
Miscellaneous			
Construction	11	9	4
Non-economic	2	2	-

[1] At 1980 prices.

Source: Shucksmith and Lloyd 'The HIDB, Regional Policy, and the Invergordon closure'.

Table 17 Sectoral Distribution of HIDB 'Section 8' Payments 1983/4

1983/4 (£000)	Tourism	Land	Fisheries	Industrial Business	Total
Grants	3,513	1,728	1,905	4,383	11,529
Loans	1,196	993	1,966	1,542	5,697
Shares	210	50	253	451	964
IDP-Grants	-	9	21	-	30
Loans	-	-	1	-	1
Total	4,919	2,780	4,146	6,376	18,221
%	27.0	15.3	22.7	35.0	100

Source: HIDB internal document.

The Board also dispenses social development grants in amounts no greater than £15,000 per case. Up to 1973 the Board was not allowed to spend more than a total of £50,000 per annum on such grants, which assist local community groups in a variety of projects. However, by 1983, this limit had been increased to £500,000. Indeed, according to the HIDB's eighteenth annual report, financial assistance for social projects approved in 1983 amounted to £517,000.

The Board took over responsibility for factory-building and management in the Highlands and Islands at the time of the creation of the Scottish Development Agency in 1975/6. It has since then become an increasingly important function of the board, and constitutes the principal expenditure category under the Board projects' budget head.

vi) History

a) Origins

The history of government economic intervention in the Highlands of Scotland is a comparatively long one, dating from the Napier Commission set up in 1883 to study the conditions of crofters, which resulted in special legislation for the area. This was followed by the establishment of the Crofters Commission, the Hilleary Committee, the Congested Districts Board, and the Taylor Committee[146]. It was not, therefore, surprising that when the then Secretary of State for Scotland, William Ross, introduced the bill providing for the creation of the HIDB to the House of Commons, he should refer to the Highlander as 'the man on Scotland's conscience'[147]. The proposal for a Highland development authority appears to have been first put forward by the Scottish Liberal Party in 1928, which requested that a Highland Development Commission be set up to co-ordinate the efforts of public departments and 'to prepare and to carry into effect a comprehensive scheme for developing the full resources of the Highlands'[148]. In 1936, the Highland Development League, an all-party body called, at its first Annual Delegate Conference, for the formation of 'an administrative or central board for the Highlands'. In the immediate post-war period the demand for an executive agency which could promote industrial development was made by the Scottish Council (Development and Industry) and the Highlands Advisory Panel. In 1953 the Scottish Trades Union Congress issued a Memorandum in favour of a Highland Development Corporation modelled on the New Towns Corporation, and the idea was expanded at subsequent STUC conferences.

In the early nineteen-sixties, the Labour Party established a special committee to prepare a Scottish policy for a future Labour government. Chaired by Judith Hart, its main recommendation with regard to the Highlands was the setting up a development authority[149], and this was brought to fruition in 1965 by the Wilson government elected in the previous year.

Reaction to the Bill which provided for the establishment of the HIDB was mixed, ranging from complaints by Conservative MP's about the 'Bill's pure Marxist ancestry'[150] and its 'irrelevant, unnecessary and damaging Socialist doctrine'[151], to descriptions of it as 'a measure, which, if properly applied, paves the way for revolutionary change in the seven crofting countries'[152]. To many in the Highlands, however, it represented the fulfilment of a demand which, as shown above, had been pressed for many years.

b) Policy

Whilst the Board was not, for a considerable period, prepared to draw up a public strategy document, its operations in its early years were geared to the attraction of investment to designated population centres, 'growth-poles', which, through expansion would, it was believed, stimulate the economic life of outlying areas. However, though some mobile investment projects were attracted to areas such as the Moray Firth, the recession of the 1970's reduced the overall percentage of such projects available for attraction. More fundamentally, the approach was resented by those who saw it as discriminating geographically against the more remote western areas, and sectorally against non-manufacturing projects. Gradually, therefore, the Board has turned to the encouragement of small business in a wide variety of commercial activities. Its 1982 Corporate Strategy (published 17 years after the Board's formation) states that the Board 'rejects the adoption of any rigid strategy based on concentrating investments in growth areas and key settlements'[153]. The strategy gives priority to 'the more remote and socially fragile areas in the islands and peripheral mainland areas'[154], and commits the Board to decentralising its staff and delegating greater responsibility to them. It also gives support to a broad-based sectoral strategy, with priority given to developing natural-resource based industries.

c) Financial assistance to business

The largest single component of the Board's budget is used to stimulate capital investment by commercial enterprises through the provision of grants, low-interest loans and equity funding. This assistance is entirely discretionary, and is used to support projects that, without Board capital, would not have gone ahead, or would have done so only on a reduced basis. Assistance is available for almost any form of commercial activity, though most goes to small firms, indicative of the established industrial structure in the Highlands. An analysis of the total grants and financial incentives offered by the Board between 1971 and 1978 at 1978 prices showed that, of 3318 cases approved, 45% involved a grant equivalence of less than £3,000, and only 1.3% involved more than £100,000. In 1983/4, over 75% of the cases approved for grant/loan assistance called for sums of less than £10,000 from the Board.

Unlike other agencies the Board has never been expected to cover the cost of its investments, presumably because of the social as well as economic nature of its remit. Its largest investment loss was that of the Lewis Stokfisk fish-drying factory which went into receivership in May 1982. The Board had previously acquired a 75% stake in the company, a pioneering venture in conjunction with a Scandinavian country, which aimed to encourage the exploitation of fish stocks off the West coast, and its investment was worth £3.2m[155]. In fact, the Board's investment policy is that financial assistance should supplement and not supplant investment by individual developers or financial institutions, and therefore, most entrepreneurs are expected to provide at least 50% of total project cost themselves. The Board had equity investment in 83 companies at the end of the 1982/3 financial year, the total value of its equity investments being £3,728,000. The amount set aside as a provision for loss on these investments was £1,550,000, representing approximately 41% of total. These figures suggest that the Board is supporting a comparatively large number of small companies, with a potentially high risk of failure, a condition endemic to manufacturing in a region such as the Highlands.

In 1981, the Board, in conjunction with ICFC and the Bank of Scotland established a venture capital fund, Highland Venture Capital, and engaged an American firm of consultants, Venture Founders Corporation, to seek out prospective entrepreneurs and projects on which the fund's capital could be employed[156]. This latter action is said to have caused resentment amongst the Board's own staff, an attitude which seemed justified when after eighteen months work, the sole project to have come to fruition was in conjunction with an entrepreneur who had been assisted financially already by the board, and with whom it had been working for at least four years. The contract with VFC was not renewed, but Highland Venture Capital continued.

The opposite extreme of the Board's business development activities is reflected in its support for community development co-operatives in the Western Isles and other remote areas of the Highland region[157]. The CDC scheme emanated from Ireland, where co-operatives had proliferated, particularly in the Gaelic-speaking areas, since the early 1970's. The Board offered to match funds raised by any community interested in establishing multi-functional co-operatives.

By March 1983, the Board had assisted 16 co-operatives, 15 of which were operational, providing 50 full-time, and 150 seasonal, part-time or outwork jobs.

c) Factory provision

The second largest component of the Board's budget behind financial assistance is that devoted to the construction and maintenance of factories. The Board has not, however, operated as an industrial landlord on a scale comparable to agencies such as the SDA and WDA. It assumed the function only in 1976, and has concentrated its programme on the provision of small factories and workshops for lease to small businesses. A combination of factors including low market rents, high building costs and the scarcity of suitable land have precluded the involvement of the private sector in this field, and the HIDB therefore have the responsibility of either financing a firm through grants and loans to construct its own premises, or undertaking construction itself. The Board has constructed some 300 factory units since 1976, and in recent years, has provided bespoke as well as advance factories. In the financial year 1983/4, 77 units were constructed, forming 155,200 sq. ft., at a cost of £5.6m.

d) Inward investment

The Board's approach to the attraction of inward investment has been, as with factory provision, low-key. Indeed the two areas are, in one sense, linked, as was pointed out in evidence to the Select Committee on Scottish Affairs, which in 1979/80 was investigating inward investment in Scotland; 'we do not build advance factories generally speaking in the islands, because we do not expect many footloose firms to locate manufacturing projects in the islands'[158]. Before the same Committee the HIDB chairman stated that 'the nature of the Highlands and the potential of Highland development is not necessarily suitable to the kind of inward investment which, for example, the Scottish Development Agency, and the Invest in Britain Bureau, are chasing throughout the world'[159]. He argued that there were dangers in attracting short-term employment in the form of external projects, in that they might take away labour from low-income but secure jobs such as those in fishing and knitwear. Since 1981, all inward investment promotion in Scotland has been under the control of the SDA associate organisation, Locate in Scotland, and visits by Board staff to overseas companies are regularly arranged under its auspices.

e) Land development

Board assistance to Highland agriculture has already been covered, in its main form, above, as it takes the form of financial assistance under Section 8 of the 1965 Act. Of grants and loans to agriculture one-third now relate to land development, and it is this area of the Board's activity, or lack of it, that has provided controversy over a number of years. In particular, arguments have centred on the problem of what the Advisory Panel on the Highlands and Islands in 1964 called 'under-used and in some cases grossly misused land in the Highlands'[160]. In 1965, the Secretary of State for Scotland speaking of the right of compulsory purchase, which was intended to be used by the Board as an instrument of land reform, declared that 'anyone who denied that power is suggesting that the Board should not function effectively at all'[161]. However, during the course of the Board's early operations it became clear to staff that the powers were inadequate to the task which the Board wanted to undertake, for example, acquiring a large estate to demonstrate progressive land use techniques. The power of compulsory purchase was derived from the 1947 Acquisition of Land Act, which meant that the Board was endowed with roughly the same powers in this respect as a local authority. They were suited to the acquisition of small plots of land in connection with infrastructural provision rather than the transfer of thousands of acres of land from private to public ownership. Legal counsel accordingly advised the Board, it was reported, that it 'lacked the clout to take on anything tougher than the odd parish council'[162]. The Board's second Chairman, Sir Andrew Gilchrist did not at first acknowledge that compulsory purchase should be employed by the Board, and even when later the inadequacy of the provisions were acknowledged by him, he considered it to be a waste of time to canvass the then Conservative government for further powers[163]. His successor, the Labour appointee, Sir Kenneth Alexander, was more appreciative of the need for new measures. He argued that 'an obstructive landlord can affect the development aspirations of tenants....we see instances of gross under-utilisation of the land, leading to a loss of jobs and livelihood to local people; in these circumstances we must consider intervention, if necessary by acquisition'[164]. Alexander approached the Scottish Office and was apparently given the impression that an application for the extension of the power of compulsory purchase would be received favourably, and that it would not be necessary to go through the time-consuming process of a test-case in the courts to demonstrate the inadequacy of present provisions[165]. Subsequently, the Board submitted, after consultations, details of amendments to existing powers to the Secretary of State for Scotland in February 1978. In June 1978 they were returned to the Board with a request that further consultations take place[166]. A revised version of the amendments was re-submitted to the Secretary of State in December 1979. It was not until over a year later, on May 7 1980 that the new Conservative Secretary of State, Sir George Younger, announced in the Commons that the government had refused the Board's request, on the grounds that its original powers had not as yet been exercised.

The Board encourages effective use of land through its provision of loans, often supplemented by grants to farmers with projects aimed at increasing productivity or efficiency. However, so long as the Board does not possess effective powers of compulsory purchase to be used as a 'last resort' landlords can carry on inefficient or anti-social practices.

However, 1982 saw the launching of a £20m EEC-backed Integrated Development Programme in the Western Isles, with a three - man project team being based permanently to disseminate information on the types of assistance available under the programme, predominantly in agriculture and fisheries[167]. The Board is also supporting efforts by the NFU and local authorities to secure EEC aid for an Agricultural Development Programme (ADP), covering the whole of the Board's area.

f) Social development

The Board is charged with a statutory responsibility to improve social and community facilities. Its aim in this may be economic, in that it wishes to attract and maintain a balanced population, capable of supplying a flexible workforce, but it is empowered to give grants for the purposes of social development. Such grants are used to extend and top up the programmes of local authorities, the Sports Council, the Scottish Education Department, and other funding bodies. In 1983 the Board's expenditure on such grants was limited to £500,000, and the size of each individual grant to £15,000. The typical type of project aided would be the renovation of a village hall, or the improvement of local sports facilities, but in the 1980's increasing attention has been paid to the promotion of the Gaelic language.

Development Board for Rural Wales/Mid Wales Development

i) Statutory purposes, functions and powers

The Development of Rural Wales Act 1976[168] which established the Development Board for Rural Wales (DBRW) can be seen to have been in a number of respects modelled on the statute which had established its predecessor in the field of rural development, the HIDB. The DBRW's aim is the promotion of the economic and social well-being of the people of the Mid Wales area, which is designated as the districts of Ceredigion in Dyfed, Meirionydd in Gwynedd, and the three districts of Powys, Brecknock, Montgomery and Radnor. Its general function is to 'prepare, concert, promote and undertake measures for the economic and social development of the area, and in particular, for the development of any area of a new town or new town situated within the area'[169].

The Board's duties include keeping under review all matters relating to the social and economic development of Mid-Wales, preparing and submitting to the Secretary of State proposals for social and economic development, carrying out approved proposals, and carrying on the functions of a Development Corporation in relation to any new town within its area.

The powers granted to the Board under the terms of the Act include:

i) the acquisition and disposal of land or other property.
ii) the carrying-out of building and other operations.
iii) the provision of services for any land or other property.

iv) the provision of finance to local authorities and others for the taking of economic and social development measures.

v) to act as agent of the WDA in providing finance and services for business.

vi) to acquire and carry on industrial undertakings[170].

The Board also has powers of compulsory acquisition of land similar to those of the HIDB, and certain rights to information on businesses and land.

ii) Control

The Board is formally accountable to Parliament through the Secretary of State for Wales. It is required to prepare a report on its activities annually, to be submitted to the Secretary of State. Its annual accounts must be submitted to the Comptroller and Auditor General, who then submits them to the House of Commons Committee of Public Accounts. As stated under Section 3 of the Development of Rural Wales Act, the Board must submit proposals for development projects to the Secretary of State for approval. Eleven such projects were approved in the 1982/3 financial year. The Secretary of State is also statutorily required to approve any disposal of land, provision of finance or industrial undertaking acquired and carried on by the Board. In the case of the provision of financial assistance, the Secretary of State must also gain the approval of the Treasury. The original Act placed a financial limit to the Board's operations of £25m, with provision for this to be raised by the Secretary of State to £40m, without parliamentary approval. However, the limit was raised to £100m under the 1981 Industry Act[171].

iii) Budget

The funding of the DBRW is more complex than other UK agencies. It receives Exchequer advances in the form of grant-in-aid, and borrowings from the National Loans Fund. Grant-in-aid is supplied through the Welsh Office vote, whereas National Loans Fund monies are received direct from the Exchequer. However, the Board is also in receipt of long-term loans from the Secretary of State. These loans have been advanced originally under the New Towns Act 1965 (to the Mid Wales Development Corporation) and the Development of Rural Wales Act, and are repayable over 60 years by equal half-yearly instalments. The Board also receives subsidies and grants from the Secretary of State in respect of its housing activities payable under the terms of its founding Act, and under the 1980 Housing Act the Board maintains a Housing Account separate from its main accounts. In 1982/3 the budget approved for the Board was £6,974,000[172].

iv) Internal structure

In 1982/3 the Board had eleven members, appointed by the Secretary of State, and a permanent staff of 92, five of which constituted its senior officers, namely the Chief Executive, Marketing Director, Development Director, Finance Officer and Secretary. In 1982, an Economic Development Unit was established within the Board's Development Department to support sectoral and regional development within the Board's area.

v) Expenditure

In its early years of operation, the activities of the Board were dominated by its responsibility for the development of Newtown. In the financial years 1977/8 and 1978/9, Newtown accounted for 60% of the Board's total expenditure[173]. During the same period assistance to industry in the form of loans, and the provision of factory space, accounted for 46% of total expenditure throughout the Board's area, and the provision of housing, primarily for key-workers near industrial developments made up 34%. By 1980/81, however, expenditure on industrial development had risen to 60% of total, and the proportion spent within Newtown had fallen to 40%. Total expenditure over the first six years of the Board's existence has been as follows:

1977/78	£4,500,000
1978/79	£6,700,000
1979/80	£8,514,000
1980/81	£5,832,000
1981/82	£6,310,000
1982/83	£6,974,000

Source: DBRW Annual Reports.

vi) History

a) Origins

The idea of a rural development agency appears to have been first canvassed at the end of the Second World War in pamphlets published by the Welsh Nationalist Party, Plaid Cymru[174]. However, in 1967, when the Agriculture Act[175] provided for the establishment of rural development boards to co-ordinate public services, provide recreational access, and create commercial farming units in two areas, the Northern Pennines and Mid-Wales, the outcry against such a measure in Mid-Wales was so powerful that whilst a Northern Pennines Rural Development Board was established in 1969, its counterpart for Mid-Wales never came into being[176]. The DBRW established ten years after the Agriculture Act resulted from an amalgamation of the Mid-Wales Industrial Development Association, a promotional body formed by the five old local authorities of the area in 1957, and the Newtown Development Corporation, which was set up in 1967, under the provision of the 1965 New Towns Act to take charge of the development of Newtown, Powys[177]. The officers of CoSIRA which had prior to 1977 been active in the area were transferred to the WDA, to carry on their work in rural areas outside the Board's boundaries. The Labour Party's 1974 manifesto had committed a future Labour administration to the creation of a 'unified statutory authority' in order to promote 'a new initiative to use and develop the social fabric and economic resources of rural Wales to the full'[178]. However, the formation of countrywide - development agencies in Scotland and Wales in 1975 seemed to some to have removed the case for a district rural agency in

Wales. Considerable concern was indeed, expressed during the reading of the Development of Rural Wales Bill that there would be a confusion of functions between the Board and WDA. The then Shadow Secretary of State for Wales, Nicholas Edwards, stated that he believed the structure of the Bill to be 'fundamentally unsound'[179]. However, the much smoother path that the Bill enjoyed, from its introduction to the House of Commons to its implementation in the shape of the DBRW, than that encountered by the Agriculture Act, ten years previously, would suggest that the measure had attained a broad consensus approval within the area concerned.

b) Strategy

As already noted, the DBRW was formed as result of an amalgamation between the two local industrial development organisations, MWIDA and NDC. These bodies had themselves been heavily influenced by the planning strategies instigated by the new Welsh Office in the late 1960's, and the broad theme of this strategy was passed on in time to the DBRW. MWIDA had been set up to introduce new industry to the area and improve rural amenities as a means of reducing unemployment. The NDC came about in order to supervise the development of a new town in the Upper Severn Valley, that would stimulate other parts of the region. In 1964, a Welsh office working party had published a report 'Depopulation in Mid Wales' that recommended the development of a dozen small towns in the region as 'growth towns'[178]. The DBRW's policy has clearly followed this pattern. In March 1978 it published a policy statement which set out its commitment to geographic planning. The statement defined certain geographical categories -

Newtown, Growth Areas, Special Towns, Key Towns and Villages, in which support is to be concentrated. This policy has been instigated, according to the Board, because funds were not sufficient to make any significant impact if spread evenly over the whole region, and 'because there was strong evidence that the development of strategic towns brought benefits too for the surrounding communities'[179].

c) Activities

Financial assistance for industry is generally provided by the Board as an agent for the Welsh Development Agency. The Agency offers a Loan scheme as well as equity funding, and the services of Hafren Investment Finance. Selective financial assistance under the Industry Act 1972, which can be provided to companies investing in Assisted Areas, was effectively removed from many of the enterprises served by the Board in 1982 when the government stripped much of the Mid Wales region of 'Assisted Area' status. However, by way of compensation, the Secretary of State for Wales provided £350,000 to be dispensed directly by the Board in the form of a Mid Wales Development Grant to projects which create or maintain employment, and involve expenditure on fixed assets[180].

As well as offering financial assistance, the Board has, from its inception, pursued a vigorous policy of providing factory space for potential investors. Construction work was originally focused on Newtown. Of the 44 units constructed in its first two years of operation, 27 were in Newtown. However, by March 1983, the Board's factory portfolio consisted of 292 units only 98 of which (33.6%, or

34.2% of factory space) was located in Newtown. In common with other agencies, the Board is becoming increasingly involved with the construction of bespoke or 'made-to-order' factories, and the importance of this role was emphasised in 1984 when it was reported that an important factor in the decision of the Laura Ashley group to site a £7m expansion project at Newtown, rather than in Holland, was DBRW's willingness to construct a 130,000 sq. ft. factory for the company within two years[181]. At the end of the 1982/3 financial year 38 of the Board's factory units (13%) were unoccupied, and a further 15 (5.1%) were undergoing renovation.

The Board also services local industry through the provision of business advice and marketing support. Within Newtown it has constructed houses for key-workers, and can offer low-cost accommodation through housing subsidies provided by the government. Its industrial promotion work has been conducted on a comparatively modest scale, concentrating on representation at industrial and trade fairs, and advertising plays such as the 'Mid-Wales Experience' train, which visited English cities during 1982/3, promoting Mid-Wales as an industrial location. The Board has also been involved in sponsoring a First Division football match, a professional show-jumper, and the Welsh National Opera Company. In 1983 responsibility for all industrial promotion activities in Wales was assumed by the associate organisation of the WDA, WINvest. In the previous year, the Board had for promotional purposes adopted the name 'Mid-Wales Development'.

The Board has a statutory commitment to encourage social, as well as economic development in Mid-Wales[182]. However, like the HIDB, its support for social development is expressly linked to its central aim of encouraging economic development. One of the Board's criteria for supporting a social development project is that it 'must be complementary to the Board's economic development programme'. Over the six years of its operations up to 1982/3, social development grants have accounted for an average of 3.3% of the Board's total expenditure. The Board also offers a public authority grant to local authorities and statutory undertakings to assist in social and economic development projects.

Local Enterprise Development Unit (LEDU)

Established under the terms of the 1971 Industries Development (Northern Ireland) Act[184], LEDU originally had the following objectives:

a) to promote employment in existing small business enterprises by encouraging better exploitation of manufacturing and marketing opportunities, and a more effective use of resources, by providing selective financial assistance, factories and sites for the building of factories, and acting in an advisory capacity.

b) to encourage the setting up of new enterprises.

c) to foster craft industry by taking measures to improve standards of quality and design[185].

LEDU was established as a company limited by guarantee, without share capital, and sponsored by the Department of Commerce (now the Department of Economic Development). It is issued with operating directives by its sponsoring department, one of which is that it should deal only with businesses employing less than 50 staff. In 1980 its remit was extended from the manufacturing sector and predominantly rural areas into the service sector, and the Belfast inner-city area.

LEDU has the ability to offer a package of grants as well as commercial and technical advice to a client. Generally, an entrepreneur is asked to contribute only 20% of start-up capital, though in some cases the figure can be as low as 12%. The difference is made up by LEDU (who will not normally contribute more than 50% of total costs) and the client's bank. In expanding its services to all commercial sectors, LEDU has taken over the Department of Trade and Industry's small business counselling service and has adopted the title of 'the small business agency for Northern Ireland'. It does not, however, offer finance on a universal basis, and specifically excludes projects in markets which are already well-supplied.

The Agency has a board of directors consisting of a chairman and nine other directors, all of whom are part-time and are drawn from the business community. Likewise, 90% of LEDU's 71 staff (1983/4 figures) are drawn from an industrial or commercial background. Four of the Unit's directors act as chairmen of the Area Panels which are drawn from local business communities and, which vet applications for financial assistance. Like the IDB, LEDU operates a team of client executives to liaise with and advise local firms. The Unit claims to have promoted 11,171 jobs in the first ten years of its existence, and another 7,821 in the following three years up to 1983/4. In this latter year, it claims to have promoted 3,658 jobs, more than the figure claimed by the IDB.

LEDU expenditure has risen considerably in recent years, in line with the expansion of its activities.

Actual expenditure: (£)

	1981/82	1982/83	1983/84
Grants	4,200,000	5,429,000	9,395,000
Loans	720,000	1,981,000	2,605,000
Administrative Costs*	1,060,000	1,314,000	1,663,000
Total	5,980,000	8,724,000	13,663,000

* Includes advertising, publicity and promotions

Source: LEDU Annual Reports.

National Enterprise Board (NEB)/British Technology Group (BTG)

The National Enterprise Board, established in 1975, under the terms of the Industry Act, was a state holding company, conceived in an opposition policy document in 1972[188] and based on similar bodies operating in Continental countries, such as the Swedish Statesforetag, and the Italian IRI[189]. One of the aims of the Board was to provide direct assistance for the regions. The White Paper which preceded the Bill stated that the NEB would 'have a responsibility on its (the government's) behalf to create employment through commercially sound public enterprises and joint ventures with private enterprise in the areas of high unemployment'[190]. However, the Industry Act itself did not give the Board a specific role in regional development, its statutory purpose being threefold; the development or assistance of the economy of the UK, or any part of the UK; the promotion in any part of the UK of industrial efficiency and international competitiveness and the provision, maintenance or safeguarding of productive employment in any part of the UK[191]. Furthermore, the commercial criteria by which the Board was obliged to operate, made investment in the regions less likely because of the greater risks involved, and consequent demands on staff-time. The 'rescue' operations in which it soon became involved, in particular British Leyland and Rolls-Royce, mainly affected traditionally prosperous areas such as the West Midlands and the South West.

The NEB's first action in regional investment was the creation of two regional offices, for the North and North West, based in Newcastle and

Liverpool, each manned by a regional Director. This had been set out in the government's draft guidelines for the NEB, which also stated that the Board was to make 'appropriate arrangements' to ensure that 'in considering the expansion of an existing operation or the development of a new undertaking, the NEB examines the case for location in an area of high unemployment with a particular intent to site the development if possible in such an area'[192]. At this time, there was much concern in the English regions that they were not being given central resources on the scale allocated to Scotland and Wales through their development agencies. There was even a private members' bill put before the House of Commons which provided for the setting up of English development agencies[193]. In response to this, the then NEB chairman, Lord Ryder stated that 'most if not all of the advantages claimed for development agencies can be achieved equally well by more effective collaboration by the various agencies in the Region (in this case, the North), and the NEB is well placed to bring this about'[194]. In answer to a suggestion by MP Barry Jones, of the Public Accounts Committee, that northern English MP's were envious of the Scottish and Welsh agencies, Sir Peter Carey, Permanent Secretary at the Department of Industry stated that the English regions had 'got what the Agencies have not got and that is an arm of the NEB operating in the Northern Region, and in the North-West'[195]. He added that 'what has happened, for example, in the Northern region in relation to unemployment shows, in fact, that far from falling behind they have kept up really remarkably well in the difficult circumstances of the recession'[196].

The NEB aimed to strengthen the regions' industrial bases not through setting up its own companies, or through finance of 'greenfield' or 'start-up' projects, but through partnership with 'well-meaning existing companies in the private sector'. However, this approach was to be criticised in that it did not appear to be as flexible as that of the Scottish and Welsh agencies. There was also opinion in the regions that the NEB, with its comparatively small staff, was too preoccupied with the problems of its large-scale holdings to give proper attention to the assisted areas. The transferee companies, or 'lame ducks' as they became known, accounted for the vast majority of NEB expenditure, British Leyland and Rolls-Royce being the recipients of 88.7% of the Board's total expenditure up to 31 December 1979[197]. On top of this, proposals for investment from the regional directors had to be remitted to the Board in London for approval.

In the light of these criticisms, the government created, in 1978, two regional Boards for the North and North-West[198]. The Boards were chaired by the existing regional directors, with members drawn from local industry and the trade unions, and had power to invest amounts of up to £500,000 in a company, without reference to the parent Board. However, the chairman of the North of England Development Corporation criticised the Board's action as not having taken into consideration the potential contributions of local organisations'...the government has chosen to create yet another nominated body responsible to London, not to the people of the region, with no elected representatives of the region on the Board'[199].

Nevertheless, through their state-owned companies and other investments the NEB had a considerable effect on the regional economies; in 1978, these companies accounted for 30,000 jobs in the north and north-west regions, or 10% of the total NEB workforce, and at the end of 1979 17 of the 30 small companies in the NEB's portfolio were located in the English regions[200].

The NEB's links with the private sector in the regions predate the coming to power of the Conservative administration in May 1979. In 1978, a joint venture with the Midland Bank established Newtown Securities (Northern) Ltd. to make available unsecured loans to small companies, and in February 1979 an advisory body for small companies, Sapling Enterprise Ltd., was set up, under the joint ownership of the NEB and a firm of management consultants, Collinson Grant Associates[201]. The Conservative government came to power in 1979, determined to cut back the activities of the NEB[202]. The Industry Act of 1980 reduced the Board's powers, in that it removed the statutory obligation to advance state ownership, and imposed strict financial requirements on its investment functions. £100m of its assets were sold off to the private sector, on the order of the government, and responsibility for the affairs of BL and Rolls-Royce were transferred to the Department of Industry. The Board was therefore restricted to three main areas of operation: encouraging high-technology ventures (such as Inmos, which was persuaded to invest in an assisted area) helping small businesses, and developing industry in the regions. There remained confusion over the Board's regional role. Sir Arthur Knight, appointed as chairman in succession to Sir Leslie Murphy in 1979, was quoted as expressing uncertainty as to what the Board could do in the regions. 'The problem has been around for 50 years or more and has taken up a lot of public money. I'm thinking about what difference the NEB can make'[203]. He envisaged an expenditure of £25m in the regions over the following three years, an extremely small amount in comparison with development agency expenditure.

In 1980, Sir Keith Joseph installed two northern businessmen, both 'active in the affairs of the Confederation of British Industry' as chairmen of the regional boards[204]. In 1981, it was announced that the NEB was to merge with the National Research Development Corporation to form the British Technology Group, though the two bodies would remain statutorily independent until at least 1983[205]. The new management structure includes a specialist division covering regional investments; however, these investments are likely to be on a small scale, and concerned mainly with technological industry. A further indication of the trend of regional investment activity within the BTG was given in March 1982, when the Board announced the setting up of two small business investment companies, with funds of approximately £2m each, to be run in partnership with private sector interests, and based on Merseyside and in the South-West[206]. The aim of the companies is to concentrate on small businesses in growth areas of industry, and thus to attract private capital. In the case of the South-West, the Western Enterprise Fund was set up with £900,000 from the NEB and £100,000 from the private firm of Dartington and Co., with another £1m anticipated from other private sector sources[207]. The development put in some doubt the future of the two regional boards, which by March 1982, had only 19 investments between them[208], and had invested only £8m in regions up to that year. Of the 18 investments outstanding at 31st December 1981, 15 were in manufacturing, 2 of which were in receivership or liquidation, and 3 were venture capital organisations[209]. This poor record might be partially explained by the fact that the regional boards were required to offer finance at commercial rates, and having none of the infrastructural powers of the development agencies, they offered few facilities that commercial institutions did not. It has also been argued that the Board never received funding on a large enough scale to carry out its regional investment role. Mitchell comments that 'the funds available for new initiatives were always limited'[210]. The Board itself, however, did not, publicly, regard funding as the problem. The then Chairman of the NEB, Leslie Murphy, told the Wilson Committee in 1978 that he 'did not regard the NEB as being short of finance. If we find very good things to invest money in I would not hesitate to go to the government for more, and I think I would get it'[211]. It is this argument which prompts Mitchell to the conclusion that 'given the Board's operating criteria, it was a lack of suitable opportunities rather than a shortage of funds which ultimately restrained the NEB'[212].

It would seem clear now, however, that under its new political masters, the NEB, as part of the BTG, will be required to finance new investment through selling off its other assets. BTG received only £10m from the government in 1983/4, as opposed to £25m in the previous year[213]. The chairman, Sir Frederick Wood, had unsuccessfully pressed the government, which was reviewing the operations of the Group, to offer it a £100m lump sum. The government's refusal, which would appear to be instrumental in Sir Frederick's decision to leave BTG, indicates that it has decided to curtail the group's equity investment activities, and force it to concentrate on technology transfer work. It can be argued that this would have deleterious effects on the regions, which wish to attract labour-intensive enterprises as well as high-technology ventures.

In December 1983, the government White Paper on Regional Industrial Development commented that 'the regional investment role of the British Technology Group is relatively minor and is concentrated on smaller firms. The need for this may be expected to diminish in the future as private sector agencies become better able to fulfil the need for the kind of equity investment which it is designed to meet'[214]. The White Paper concludes that BTG 'should not maintain a regional investment role'[215].

It was revealed in January 1984 that attempts were being made to devise a private sector alternative to the regional boards, as the investments held were considered too fragile to return immediately to the market[216]. It was also reported that the Northern Region TUC, supported by the CBI, have initiated plans to set up a northern development agency[217].

Enterprise Boards

Below are outlined brief descriptions of three of the most prominent Enterprise Boards established since the county elections of 1981[218]. They represent both local authorities' desire to act positively in the light of rising unemployment, and their anxiety to circumvent the effects of the Conservative government's attempts to curb local authority spending.

i) Greater London Enterprise Board (GLEB)

GLEB is a company, limited by guarantee, which became operational in March 1983. Its principal objective is to preserve and enhance job prospects in the Greater London area, and to this end it aims to intervene in the private sector, to develop the public sector's role in the economy, and to promote economic democracy.

GLC councillors are responsible for the appointment of Board members and the Chief Executive, and the Board is subject to operating guidelines issued by the GLC. The Council also draws up an annual funding agreement which details spending plans, and the policy framework within which the Board is going to work. Representatives of the GLC attend all GLEB Board meetings. The Board has 70 staff, allocated to five divisions, sector strategy, investment, area and property, structural planning and new technology. The Board is able to offer equity and loan assistance, and to acquire property and land for industrial purposes. The Board writes into each financial agreement clauses guaranteeing union recognition, compliance with the health and safety laws, equal pay structures and similar conditions. In its first year of operation, it approved £31.6m of investments. A corporate strategy has now been established for 1984/5, detailing industrial sectors to which priority will, in future be given. GLEB claims to have preserved or created over 2000 jobs in its first year of operation, and plans have been made for it to continue operating after the abolition of the GLC and the metropolitan counties in 1986. The future funding of the Board will provide a difficult problem for the Secretary of the Environment.

ii) West Midlands Enterprise Board (WMEB)

The WMEB is a company, limited by guarantee, which was established early in 1982, with an initial grant from West Midlands County Council of £3.5m. The Board 'is concerned with investment in local unquoted manufacturing companies through the provision of long-term equity and loan finance in the context of expansion, financial restructuring, management buy-outs, and mergers and take-overs'[219]. The Board has twelve members, eight councillors and four unpaid directors. Control is exercised by the dual membership of the Board and the County council's Economic Development Committee, which is vested in certain elected members. The Board also has to submit a quarterly report to the Economic Development Committee, and Economic Development Unit staff are present at Board meetings. The Board has a staff of ten, and by the summer of 1984 had received £8.4m in grants from the County Council. It has a policy of not offering more than 50% of the financial costs of any one project. Invested companies must sign a planning agreement before finance can be extended. By the end of the

1983/4 financial year, the WMEB had made 20 investments in 18 separate companies, totalling £5.2m. The Board had also established a subsidiary fund for finance capital to which the County Council had contributed £2.5m, and contributions had been drawn from 5 London borough superannuation funds. The Board does not operate a specific sectoral strategy but is prepared to play a pro-active role in liaising with local industry, and seeking out investments.

iii) West Yorkshire Enterprise Board

WYEB is an independent company, limited by guarantee, and established in late 1982. Its objectives are to strengthen the local economy, to preserve existing jobs and to provide for the development of new ones. It is controlled by two boards; the first, the primary board, consists of twelve councillors, made up in a ratio of 2:1 in favour of the ruling party on the County Council. The second board acts in an advisory capacity and comprises five voting directors, all elected councillors, including the leaders of the three main groups on the council, and five non-voting directors, three senior officers of the Board, a representative of the Midland Bank, and a trade union representative. There is no formal reporting mechanism back to the County Council, control being exercised solely by the elected members. The Board can offer assistance from £10,000 up to £400,000, though funds are generally used to 'top-up' private sector investment. Conditions of investment include that the investment must remain in the County, that the company complies with employment legislation, and that trade unions be given full rights of representation. However, the Board does not pursue a sectoral strategy, for fear that this would increase the risk of financial loss by concentrating investments in particular industries. By June 1984 twenty firms had been assisted by the Board, at a total investment cost of £2.5m.

Other organisations, operating on similar lines to the above, include Lancashire Enterprises Limited, established by Lancashire County Council, and the Merseyside Enterprise Board. There are also four English regional development organisations, non-elected bodies made up of representatives of local authorities, trade unions and businesses, which exist to promote their respective regions as industrial locations, and which, under the Conservative government have received increased funding[220]. Government grants to these organisations in 1983/4 were as follows (1982/3 figures in brackets)[221].

(£000's)	1983/4	1982/3
North of England Development Council	850	(250)
North West Industrial Development Association	260	(230)
Yorkshire and Humberside Development Association	163	(70)
Devon and Cornwall Development Bureau	110	(60)

The government's decision to increase suddenly the financial resources of these long-established bodies (NORWIDA, for example, is over fifty years old) is ostensibly to make their position more comparable with that of the Scottish and Welsh development agencies. However, it has been argued that what the government intended was to channel local authority sponsored economic promotion through these bodies, in order to establish the local authority's role in economic development, as favoured by the government, as removing 'bureaucratic' obstacles to company expansion, within their respective localities[222]. This was the approach outlined by the Burns Committee inquiry[223], and runs contrary to the attitude adopted by the Labour-controlled councils mentioned above in connection with the establishment of enterprise boards.

The government has also looked favourably upon the burgeoning growth of local enterprise agencies in the UK. Despite the similarity of name, enterprise agencies and enterprise boards are separated by 'a wide political gulf'[224]. Enterprise agencies are 'business development organisations in which a number of firms in an area form a corporate identity through articles of association with the objective of helping small businesses to start up and help existing local firms to prosper'[225]. Their work is primarily demand-led, in comparison with the pro-active stance of the enterprise boards, and their philosophy owes much to the views of those who see economic recovery as being stimulated by the small business sector. It has also been suggested that they reflect an attitude of 'noblesse oblige' on the part of large companies. A recent survey of enterprise agencies conducted by their umbrella organisation Business in the Community showed that nearly 50% of the agencies resources were derived from the private sector[226]. Others maintain that it is in the long-term interests of such companies to reduce costs by off-loading manpower and premises onto the small business sector, which in turn can provide a valuable source of sub-contracting work. It is this low-cost, self-help type of initiative which is attractive to the present Conservative government. Alternatively, the Enterprise Boards can be expected to form the basis of any remodelled regional policy produced by a future Labour administration.

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CHAPTER FOUR

Regional development agencies in the Benelux Countries

Benelux - the economic background

In relation to the economic geography of Europe, the countries of Belgium and the Netherlands and Luxembourg are in an extremely favourable position. They form part of a population heartland, the Lotharingian axis, which stretches from the Cote d'Azur to the Dutch coastline[1], and provides a massive domestic market. Parts of Belgium and the Netherlands providing coal and natural gas, figure in the Home Energy Production Zone[2], which stretches from the hydro-electric power producing Alpine zone of South-East France and Italy, to the North Sea littoral, whilst all three countries lie within the Heavy Industrial Triangle[3], which denotes the principal area of industrial activity in the EEC, and contained , in 1976, 95% of coal production, and nearly 60% of steel making capacity.

All three countries were thus favourably positioned to take advantage of post-war economic conditions. Willy van Rijkeghem states that the three economies have developed similarly since the war, with per capita income in each having reached $10,000 by 1979[4], reflecting high levels of wages and industrial production. However, general comparisons over a period of years mask certain disparities. For example, since the war, whilst per capita income has doubled in Belgium and Luxembourg, it has tripled in the Netherlands. In the 1950's, Belgium's economy was one of the slowest-growing in Europe, partly because investment was still being channelled into traditional economic activity and, in particular, Belgium's colonial territories[5].

The interrelationship of the economies of the Benelux countries dates back, in terms of formal agreements, to the economic union between Belgium and Luxembourg in 1920[6]. In 1944, the London Convention laid the foundations for the Benelux customs union, which came into effect in 1948. This resulted in the lifting of all tariff barriers within the borders of the three countries, and the raising of common external tar iffs.

The formation of the European Economic Community in 1958 was particularly beneficial to the Benelux countries[7]. They became attractive as a location for foreign investors wishing to gain access to the new European market. During the period 1960-67, a total of more than 300 new foreign firms were established in Belgium, of which over 50% were American-owned. For the manufacturing sector alone, foreign investment accounted for a third of total gross investment, and for half of net investment between 1960 and 1972[8].

The recession of 1973/4 brought to an end a period during which the Benelux countries had experienced the full benefits of European economic integration, though of the three economies, that of the Netherlands was best placed to withstand it, because of its reserves of natural gas. However, in the ensuing years, labour productivity and gross national product in Belgium and the Netherlands increased at nearly the same annual average rate, though unemployment and inflation were both higher in Belgium[9]. The Dutch used their virtual selfsufficiency in energy to hold down its price, and therefore contain inflation, but, by the end of the decade, the rate had converged with that of Belgium[10]. Belgium's higher unemployment rate during this period is, according to van Rijkeghem, accounted for by its higher female participation rate[11]. However, by December 1982, it was running at 14.7%[12], and the annual OECD survey was predicting static or declining living standards for Belgians for a number of years[13]. In 1981, the budget deficit accounted for nearly 13% of the country's output, and this has led the Centre-Right coalition of Christian Democrats and Liberals to introduce a series of measures designed to reduce the public sector borrowing requirement by 50% in four years[14].

Belgium - Industrial Policy

Since the royal decree of 14 October, 1959, which established the Belgian Office of Economic Planning, National Plans, 'five-yearly indicative socio-economic development programmes of a qualitative nature'[15] have been issued by the government. In 1970, the Organisation of the Planning and Economic Decentralisation Act, changed both the nature and the status of the five-yearly plans. They became more detailed (regional and sectoral) and budgets were included, and they became binding on public authorities and public enterprises, and on private firms which entered into planning agreements with the government[16]. However, as was the case in the United Kingdom in the mid-70's, such agreements were seldom concluded (only two made by the end of 1976, with Siemens and Phillips)[17] and, as Keyser and Windle have commented, 'the Central Plan has not influenced the Belgian authorit y to any great extent... the planning process is largely provisional and had up till now, no impact.'[18]

The large amount of foreign investment in Belgium (see above) has resulted in political pressure on the government to stimulate indigenous industrial development. There are a number of public financial institutions which provide finance for industrial investment, including the General Savings and Retirement Fund (Caisse Générale d'Epargne et de Retraite), the National Company for Industrial Credit (Société Nationale de Crédit à l'Industrie - SNCI/NMKN) and the National Investment Company (Société Nationale d'Investissement - SNI/NIM).

The SNCI provides credit for the transformation and modernisation of factories, and the development of new products[19]. It has an agreement with the commercial banks whereby it alone handles loans of over BF10m, whilst the banks deal with loans of less than BF5m. The SNI, founded in 1962, to stimulate 'the foundation, the reorganisation and the extension of enterprises', and to promote public economic initiative, carries out its functions through participation in risk-bearing capital. In 1976, it was converted into a state holding company, which can establish state controlled companies. Though it has increasingly been called upon by the government to assist certain companies in difficulties, approximately 60% of SNI participations concern newly-established enterprises. SNI participations are, in principle, temporary, and holdings of over 80% of share capital require the approval of the Council of Ministers. Though originally financed by both public and private shareholders, the SNI is now wholly owned by the government, which appoints the members of its

Board.

Another important aspect of state industrial policy in Belgium is its involvement in pricing. A Price Commission (a tripartite body made up of employers, employees and consumers) advises the Minister for Economic Affairs, who is responsible for pricing policy and has the power to set maximum prices, and to freeze them.

However, as Keyser and Windle point out, in their study of Belgian public enterprise, 'the Belgian government has never tried to implement a large-scale nationalisation programme of industry or commerce'[21]. It has only shown itself willing to intervene under certain specific conditions. For example, in the case of public transport and of mail services, intervention was based on the concern that particular goods and services should be produced at the lowest possible cost, and that this could only be achieved in these instances through state support. It has acted to support sectors and individual companies in difficulties where it considered the national interest to be at stake (through the potential loss of employment, or of a particular product). This support has generally been channelled, in recent times, through the SNI, but it has also involved the SNCI, and the government itself, for example when private companies have been taken into public ownership.

Belgium - Regional Problems

The regional problems of Belgium manifest themselves not only in economic but in cultural terms, as represented by the language-line which runs across the country to the south of Brussels. To the north of this line lies Flemish-speaking Flanders, encompassing the bilingual metropolitan area of Greater Brussels, and to the south lies French-speaking Wallonia. Belgium shares the problems of other European nations in that it contains areas suffering from high unemployment and high migration, but on top of this is superimposed at the policy-making level, the language question. Historically, the Wallons represented the dominant section of the population, reflecting the pre-eminence of the French language as an administrative and cultural medium. In the nineteenth century, the Wallonian economy prospered, based as it was on the coal-fields of the Sambre-Meuse valley and the related growth of heavy industries such as steel-making. In contrast, Flanders was an agricultural area, 'a stagnant peasant economy', and the Flems, at law as well as in practice were 'second-class citizens[22]. However, in the last fifty years, the two areas have experienced a complete reversal of fortunes. Since the early 1930's, Wallonia's population levels have remained almost static, whilst those of Flanders have grown by approximately one million[23]. The Flemish-speaking community now makes up 55% of the total Belgian population, whilst 32% live in the French-speaking area, and 11% in bilingual Brussels[24]. The traditional industries upon which Wallonia's prosperity was built have been shedding manpower at a high rate. In the provinces of Liège and Hainault, unemployment in the coal industry declined by over 90% during the period 1953-73[25]. The staple industries of the Wallonian economy remain iron, steel and metal manufacturing, whilst in contrast the Flemish provinces have made 'fairly dynamic progress'[26] since the war. Estimates were made in 1975 that 75-90% of foreign industrial investment in Belgium was going to Flanders, and the Greater Brussels area[27].

This stark regional difference in economic performance has produced social tension, for example in recent disputes over job-losses in the steel industry. Another instance occurred in the wake of the recession of 1958, in which Wallonia suffered through the loss of rolling-stock production and the contraction of the coal industry, under pressure from cheap American coal. The crisis prompted the government to introduce a programme of measures designed to stimulate investment in new industries, coupled with a package of fiscal measures and expenditure controls[28]. Public service workers struck against these deflationary restrictions and their action quickly received support from other sectors of industry in Wallonia, until the government was faced with what amounted to a general strike in the province. The movement foundered, however, on its inability to mobilise workers in Flanders, which led many Wallonian politicans and union leaders to the conclusion that 'there could be no progress for the labour movement in the area whilst Wallonia remained tied to the concept of a unitary Belgium'[29]. In his analysis of the episode, Carney argues that it was the presence of a 'politically conservative labour reserve'[30] in Flanders which was essential to the modernisation of the Belgian economy in the 1960's, and led to a diversion of investment away from the traditional industries of Wallonia to the developing ones of Flanders. Thus, the Flanders economy grew at twice the rate of that of Wallonia in the 1960's, and in 1967 per capita income in Flanders exceeded that of Wallonia for the first time[31]. By 1970 unemployment in Wallonia was approximately double the level of Flanders (5.0% as compared with 2.6%), whilst in 1979 it was still significantly higher (13.6% as compared with 10.9%)[32].

However, it would be an over-simplification to present the regional problems merely in terms of an expanding north and declining south. Just as Flanders has depressed areas, so Wallonia's economy is not uniformly depressed. The two poorest provinces are Limburg in the north, and Luxembourg in the south, both with only 78% of average income,[33] whilst Liège, the principal Wallonian city, has, largely as a result of its excellent communications links, 'already adapted to a large extent to the decline in coal-mining, and has bright prospects for the future'[34]. It remains the third richest province in Belgium, after Brabant (containing Brussels), and Antwerp[35]. Likewise, important questions of physical planning revolve around the development of the so-called 'Brussels-Antwerp growth axis'. Brussels has grown enormously since it became the effective administrative centre of the EEC, and some 200,000 people commute daily to the city from areas as far away as the Ardennes[36]. Coupled with the expansion of Antwerp as an international port, and the presence of a third industrial centre in Ghent, this area constitutes Belgium's 'golden triangle'[37] and, as urbanisation pushes northwards, commentators have spoken of a 'Middengebiet' area of five million inhabitants, stretching from Brussels to the north of Amsterdam[38]. Just as Dutch planners have regulated the growth of the Randst ad with its 'greenheart', so their Belgian counterparts will need to balance the growth of the northern metropolitan conurbation against the deindustrialisation of other parts of the country.

Regional Policies

Regional problem areas were first recognised by the government through the Regional Expansion Law of 1959, though those areas designated were primarily agricultural, covering about 15% of the population[39]. Assisted areas had to have one or more of the following characteristics:- high permanent unemployment, heavy out-migration, large socially or economically unsettling commuting movements, and an actual or impending decline of important economic activities. However, the measures associated with their special status were so marginal that they provided little incentive for companies to invest in them, rather than anywhere else in the country. Subsequently, in 1966, these zones were superceded by regions in industrial decline, in particular those dependent on the coal and textile industries, which were termed Zones of Economic Reconversion and Development. These included the west of West Flanders, the south of East Flanders, the north of Hainault and the area around Liège, as well as much of North East Belgium, and covered 35% of the population. The regional differential within existing incentive measures was increased, and a new capital grant was introduced, as were fiscal concessions, of which the main element was accelerated depreciation.

In 1970, new criteria for the designation of problem areas were introduced including the presence of serious structural unemployment, abnormally low standards of living, and slow economic growth, but the actual areas remained much the same, whilst being divided into two categories - Category I Development Zones were those mainly industrial areas designated in 1966, and Category II Development Zones were the mainly agricultural areas designated in 1959 and dropped in 1966. In all, the areas now covered 42% of the population. The existing incentives were increased and the sectoral coverage of incentives extended to particular service industries. In September 1971, a plan to create assisted areas in 41 of the 44 administrative districts of Belgium was vetoed by the European Commission as being too wide-ranging for regional policy purposes. Whilst negotiations took place over the Commission's counter-proposal of assisted areas in 28 districts, the 1970 legislation remained in force. Indeed, changes to the composition of assisted areas were not finally approved until 1982[40].

One of the most important developments in relation to regional policy was the increased demand for decentralisation of decision-making, which has been mentioned above in the context of the 1960/61 Wallonian strike. As early as 1959, the Regional Expansion Law had included provision for the establishment of 'intercommunales de développement économique' (local economic development councils), whose aim was to promote the economic development of their own area through the attraction of investment, and which had the power to buy land and lease it to industry at cheap rates. In 1961, the Flemings finally achieved equality at law for their language, through legislation which also defined the 'language line'. The work of a government commission established in 1963 to examine Belgian central institutions and which called for extensive decentralisation was recognised in the Regionalisation Law of 1970, which provided for:

i) regional economic councils (conseils économiques régionaux - CER's), one each for Flanders (CERF), Wallonia (CERW) and Brabant (CERB). Each had 50 members drawn from the national parliament, the provincial councils, and employers' and employees' organisations. They had the power to advise and to make recommendations.

ii) The Bureau for Industrial Promotion (Office de Promotion Industrielle - OPI), a national research body which seeks out viable projects for private industry, and was to be administered by the CER's.

iii) Central Economic Planning Office (Bureau de Plan) made up of a central division, a sectoral division and three regional divisions. The regional divisions consisted of appointees of the relevant CER's.

iv) Regional development companies (sociétés de développement régionale - SDR's) to be set up by provincial councils with the following aims - to study economic development in the region, to outline the particular needs of the region, to advise and co-ordinate within the region the sectoral activities of the national five-year plan, and to provide investment finance for industrial projects where sufficient funds could not be had from the private sector[41]. Seven SDR's were established, one in each of the provinces of Flanders, and one each for Brussels and Wallonia. The Wallonians chose to have one large agency, rather than separate ones for each province, because their economic base was relatively homogeneous, and because, whilst Flanders already had five mini-SDR's in the form of local economic councils, Wallonia did not have these at a provincial level.

The law of 8 August 1980 extended the devolution of power to regional institutions, through the vesting of sole authority in certain matters to community councils ((communautés) and regional councils (régions). Both councils are sub-divided into a Council and an Executive, and in Flanders the community council carries out the functions also of a regional council. The community councils have responsibility for particular cultural and educational matters, whilst regional councils have responsibility for broader policy areas. These areas are those of:-

i) urban and regional policy
ii) the environment
iii) rural renewal and nature conservation
iv) housing
v) water
vi) economic policy (with the exception of that which relates to the coal, shipbuilding, packaging, textile and iron and steel industries, which remains under the control of central government.)
vii) energy
viii) employment
xi) local government institutions
x) applied research

Within the limits of their remit, the powers of the councils are exclusive, but a dual system of legal controls is exercised over them by the legislative section of the Council of State, and higher authories such as the Supreme Court of Appeal and the Court of Arbitration. Defalque argues that, at present, the regions have great political weight in that, even in areas outside their competence, central government dare not act without first consulting them, thus delaying the decision-making process, whilst, conversely, the councils are under no obligation to inform central government of their decisions[42]. The position has been aggravated as a result of the legislative elections of the autumn of 1981, in that the community council and regional council are dominated by the Socialist party, which is opposed to the central government coalition, headed by Prime Minister Wilfred Martens, which is made up of Christian Democrats and Liberals. However, the government remains committed to a transfer of financial resources to the regional authorities, despite its overall policy of reducing public expenditure.

Developments in regional economic policy which have taken place recently have included a measure giving special financial aid to small and medium-sized companies in 1978, and the introduction of a number of tax-free enterprise zones (T-zones), within the boundaries of which companies will, for a ten-year period, be exempt from a range of taxation measures[43].

Belgium - Industry and Finance

In recent years there has been considerable expansion in Belgium in the field of financial intermediaries functioning to supply medium and long-term credit to Belgian industry and commerce. According to a recent survey of European banking, a number of these organisations have been created in the public sector, reflecting on the part of the government 'a concern to fill a gap left by the private sector which alone could not bring about the transfer of funds from the economic agents with a surplus to those with a deficit'[44].

One such organisation, the Société Nationale de Crédit à l'Industrie/National Maatschappij voor Krediiet aan de Nijverheid (SNCI/NMKN) was actually established as far back as 1919 with the objective of granting medium or long-term loans to Belgian industrial, agricultural and commercial enterprises in order to stimulate the transformation and modernization of industrial plant, the establishment of new enterprises and the reorganisation of public enterprises. However, in 1968, the State concluded an agreement with the SNCI/NMKN whereby the latter was charged with the execution, on behalf of the State, of credit operations with regard to companies in severe financial difficulties, and without recourse to alternative sources of credit. It also maintains a 'gentleman's agreement' with the financial institutions (both public and private) according to which the market for credit to industry is split. In principle the SNCI provides credits of more than BF(Belgian Francs)10m, and the banks provide credits of less than BF5m (1975 figures)[45].

The Société Nationale d'Investissement/Nationale Investerings Maatschappij (SNI/NIM) was founded in 1962 as a semi-public company. The preamble to the Act which established it stated that 'our country needs a financial institution which will, together with the private sector, provide and assist industrial development in particular among small and medium-sized enterprises'[46]. A further Act of 1976 transformed the SNI/NIM into a public holding company, the State buying up all private shareholdings. The SNI/NIM has two main objectives, to stimulate in the interest of the Belgian economy, the foundation, the reorganisation or the extension of enterprises and co-operatives, and to promote public economic initiative. The operations of the SNI/NIM can include the taking up of shares, the issuing of bonds and contracting of loans. It is also asked by the State to intervene to help companies in difficulties, sometimes in conjunction with the SNCI[47].

Regional investment companies were established in Wallonia in 1979 and in Flanders in 1980. The Wallonian company, the Société Régionale d'Investissement de Wallonie (SRIW) was originally established under the control of the central government, but responsibility was transferred to the Wallonian Regional Executive under the laws of August 1980. Reflecting the difficulties experienced in finding an acceptable compromise concerning the regional government of Brussels, no investment company for the area was established until 1984.

The investment companies have the objectives of developing private enterprise within their respective regions, promoting the regional economy through public initiative, and assisting the regional executive to implement regional industrial policy[48]. To this end, the investment companies can make equity investments in companies, set up companies, acquire industrial property, and administer grants available under the economic expansion laws. Their capital is derived from the budgets of the regional executives, and also from the Industrial Renovation Fund (F.R.I/F.I.V) set up in 1978 by the central government to assist industrial reconversion projects and companies involved in technical innovation. In 1980 the capital of the fund was made directly available to the regional investment companies on the condition that they satisfied certain investment criteria.

As well as investing capital on their own initiative, the investment companies also maintain separate portfolios on behalf of their Regional Councils. Investments in this latter category are more likely to take the form of 'rescue missions' in connection with more mature or declining local industries. As will be shown, the establishment of the regional investment companies has had a considerable effect on regional development agencies in the Flemish and Walloon regions: in Wallonia, the SRIW at first assumed the investment portfolio of the SDRW, and then in conjunction with the Wallonian Regional Executive took over the rest of its responsibilities, the SDRW subsequently being wound up. It may well transpire that the regional investment companies will eventually come to resemble more in their structure and operations, the UK regional agencies than do Belgian agencies at present.

Société De Développement Régionale De Wallonie - SDRW

i) Statutory purposes, powers and functions.

Provision for the establishment of regional development agencies in Belgium was first made under the Regionalisation Law of 1970, as part of the broader measures of decentralisation which formed the main part of this legislation[49]. According to the statute, each agency was to be constituted as 'un organisme de droit public, doté de la personalité civile.' Their purposes were to be fourfold:

a) to carry out a general study on the concept and promotion of economic development

b) to carry out a specific study on the needs of the particular region

c) to fulfill a general advisory and co-ordinating role in respect of the various sectoral activities outlined in Belgium's five-year economic plan

d) to support industrial projects where sufficient funds are not available from the private sector[50]

The Royal Decree of 16 September 1973 laid down details of central government control over the agencies (see below, 'Control'), whilst the statutes of the SDRW were approved, and the details of how its aims were to be carried out contained in a further decree of 17 December 1973[51].

ii) Control

Upon its establishment the SDRW was made formally accountable to the Belgian parliament or 'conseil des ministres', and the King, who is constitutionally responsible for the signing and enforcement of legislation. In practice, supervision was exercised by the Ministère des Finances (Ministry of Finance), but as the SDRW became less reliant on central government for funding, so its control diminished.

See p. 377

Under the terms of the Royal Decree of 16 September 1973 a Government Commissioner has the right to attend meetings of the Administrative Council of the SDRW, in the capacity of an observer. There is also a Finance Inspector who is responsible for checking the SDRW's accounts. This officer reports to the Government Commissioner.

The constitutional changes of 1979-80 brought the SDRW under the direct control of the Wallonian Regional Executive, devolving as they did responsibility for a whole range of activities, including regional and economic policy, from central to regional government. This had the effect, for example, that equity funding of enterprises by the SDRW which had previously been approved and financed by the central Ministry of Finance, was taken over by the Regional Executive, which was empowered to instruct the SDRW to invest in particular companies through 'missions déléguées'.

The other main aspect of the SDRW's work, the 'cellules', or units, could be initiated by either central or regional government, which awarded the SDRW a fixed term contract to carry out certain specified tasks, and provided a budget to cover the period agreed. Each of the cellules were monitored by a 'comité d'accompagnement'.

As well as its external accountability, the SDRW in its operations was also answerable to its supreme governing body, the General Assembly, a feature which will be discussed below ('internal structure').

iii) <u>Budget and source of funds</u> (See also Table 1)

In the later years of its activity the funds of the SDRW were derived from four main sources. It had received an initial starting capital of 9m Belgian Francs from the five provinces which make up the Wallonian Region and it continued to receive an annual grant from the province of Brabant. The legislation prescribing the SDRW's staff limits also made provision for annual labour subsidies from the State to be granted to cover the cost of wages. Central and regional government funded the cellules according to the terms of the contract made in each individual case. Finally, the SDRW was also able to draw credits from a National Parallel Credit Fund, which according to a distinctive Belgian compromise was established to distribute funds to Wallonia in proportion to funds disbursed by the central government for the development of the Flemish port of Zeebrugge. Equity activities, before being transferred to the S.R.I.W, were funded firstly by central, and then, after 1979, by regional government. The SDRW also negotiated two special loans (dotations octroyées) from the State in 1976 and 1979 to enable it to overcome temporary financial difficulties.

As can be gathered from the preceding comments, the budget was to a large extent determined by the modes of funding, because different SDRW functions were covered by different sources of finance, such as the 'cellules' and 'missions déléguées'.

iv) Internal Structure (See also Fig. 1)

As mentioned above, the staffing levels of the SDRW were determined by Royal Decrees. This was initially established at 12 by a Decree of 15 October 1975; it was increased to 50 on 3 March 1977, and 116 on 1 July 1980. The staff was also supplemented by unemployed workers recruited on government-funded schemes.

TABLE 1 SDRW - Annual Subsidies and Grants

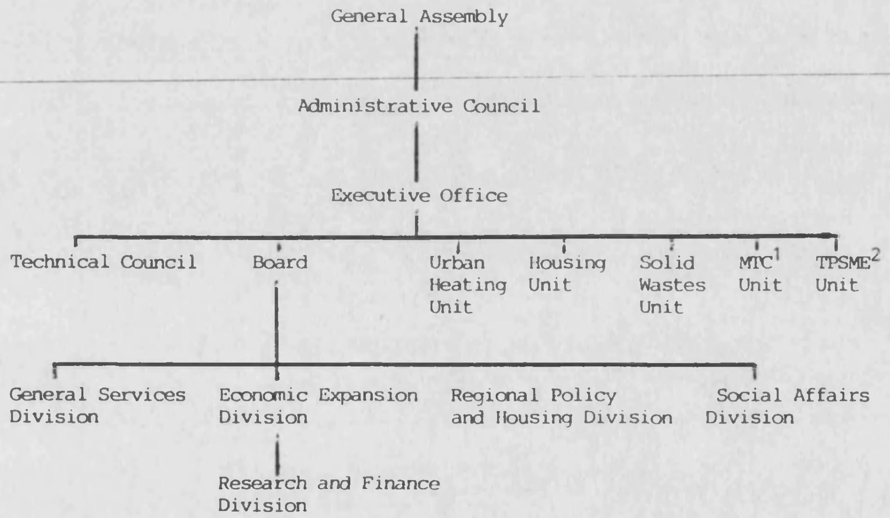
	1979	1980	1981
Labour subsidy from the State	64,900,000	69,700,000	67,900,000
Subsidy from province of Brabant	-	1,099,312	1,143,068
Research grants for 'cellules'	148,887,899	121,695,947	134,125,905
Parallel credit funding	3,891,102	3,845,482	6,952,742
Special subsidy from MEURA	517,241	-	-
Variation of stocks of Products in the proces of manufacture	-	-	402,178
TOTAL	218,196,242	196,330,741	210,523,893

MEURA - a private company in which the SDRW held equity.

Source: Expanded from Yuill D (ed) Regional Development Agencies in Europe.

Figure 1

SDRW Internal Structure



1. MTC Unit - Unit for the management of technical contracts ('Cellule de Gestion des Contracts Technologiques')

2. TPSME Unit - Unit for the technological promotion of small and medium sized enterprises ('Cellule de Promotion Technologique des Entreprises indepéndantes')

Overall responsibility for the running of the SDRW rested with the General Assembly, which was made up of 32 members, 16 designated by the provincial councils, on a geographic basis, and eight each from representatives of trade union organisations, and eight from representatives of industry and agriculture. All members are appointed on a four-year renewable mandate. The General Assembly customarily met only once a year to receive the SDRW's annual report, to elect its president, and to nominate the members of the 'Administrative Council'. It could, however, be summoned to meet in emergency session.

Responsibility for the management of the SDRW fell to the Administrative Council, a 16 member body, nominated by the General Assembly, and mirroring its representative composition, namely eight members nominated by the provincial councils, and four each from trade unions, and representatives of industry and agriculture. Its practice was to meet fortnightly in order to superintend the administration of the SDRW.

Day-to-day management of the SDRW was, however, carried out by a third tier of organisation, known as the Executive office, and consisting of the President and Vice-President of the SDRW, the General Administrator and the Secretary-General. This committee reported to the Administrative Council.

The final tier of internal control was represented in the Techinical Council, a group made up of one representative of each of the eleven Wallonian 'intercommunales', four members of the SDRW's Administrative Council, and two representatives of the CERW (Conseil Economique pour la Région Wallonie). This body had the task of monitoring the joint research projects of the SDRW and the 'intercommunales'.

Beneath the executive structure, the operational units of the SDRW were divided into two main sections: the 'core' divisions, which were directly responsible to the higher management of the SDRW, and the 'cellules', existing on fixed-term contracts, funded by either central or regional government.

v) <u>Expenditure</u>

The level of SDRW expenditure is particularly difficult to gauge on an annual basis, not least because money was allocated to the 'cellules', for example, to cover a number of years, the exact time period varying, according to the nature of the contract. Moreover, as the Société carried out functions on behalf of both central and regional government, who funded these activities accordingly, the SDRW 's expenditure figures may not give an accurate picture of the scale of its operations. Figures taken from successive Annual Reports suggest that the Société's expenditure (excluding that of the 'cellules') may have amounted annually to no more than £3m, the bulk of this being taken up by research activity and information services.

vi) History

The reasons for the establishment of the SDRW and other agencies in Belgium are generally perceived as being twofold; the need to reform and decentralise Belgium's central institutions[52], and the recognition that the traditional regional policy methods were no longer effective[53]. A special commision was set up in 1963 to investigate the possibility of transferring power from national government to the regions. Its report and recommendations led directly to legislation in 1970, which recognised the existence of three distinct linguistic communities[54]. However, the legislation also altered the nature of economic planning in Belgium. It established the Bureau de Plan (Central Planning Office) which, with its regional divisions was to be responsible for the compilation of a five-year plan, which was to be binding on public authorities and public companies. Regional economic councils (CER's) were also formed in each linguistic region, comprising members of the national parliament and the provincial councils. The plan, which had originally been introduced in 1959, was therefore to contain a more precise regional and sectoral emphasis and was to be drawn up by broader consultation at a more local level. It is in this context that the provision for the establishment of Sdr/gom's (société de développement régional/ gewestelijke ontwikkelings maatschappij) was made, with the specific requirements that such bodies carry out studies on the economic development and related needs of their region, and that they 'fulfil a general advisory and co-ordinating role in respect of the various sectoral activities outlined in Belgium's five-year economic plan'[55]. (See above, 'statutory purposes, functions and powers'.)

Wallonia opted for an sdr at a regional rather than a provincial level, apparently because it was felt that economic problems of a relatively homogenous nature were common throughout Wallonia, and that the most appropriate way to combat them was at a regional level. This decision was taken by the provincial council on the recommendation of the CERW, responsibility for the setting up of sdr/goms having been placed in the hands of the provincial councils by the Royal Decree of 17 September 1973. However, it was not until 1976 that the SDRW became fully operational. According to the central government, the SDRW was categorised as 'une institution de transition', a transitional institution, facilitating the devolution of economic power from a national to a regional level, and the winding-up of the organisation was debated from an early stage of its history[56]. The constitutional reforms of 1980 devolved responsibility for economic matters, amongst other activities, to the regional executives. These bodies also assumed control of the regional investment companies established in 1978, and in January 1981 the SDRW's investment portfolio was transferred to the SRIW. On 30 June 1983 the SDRW was formally dissolved, and its staff reallocated to other regional institutions. Below, a brief description is given of the activities it carried out during the eight years of its existence.

Financial assistance to enterprises

The SDRW was initially able to take equity shareholdings in companies; these generally took the form of 'missions déléguées', or interventions ordered by central government. However, the SDRW was able to submit proposals for investment to the Ministry of Finance for approval. By the end of 1980, prior to the transfer of its holdings to the SRIW, the Société had built up a portfolio containing twenty-five companies, valued at 393 BF (Belgian Francs) or approximately £5m sterling[57]. After the constitutional changes of 1980, it carried out for a brief period 'missions déléguées' for the Wallonian Regional Executive.

The only form of financial assistance that the SDRW was offering to private industry immediately prior to its abolition was that provided by the Unit for the Technological Promotion of Small and Medium-sized Enterprises, in the form of loans to technologically-innovative businesses. These loans consisted of either repayable advances or debentures, and in 1981, 95.5 M BF were loaned to 13 companies[58].

Research activities

Seen in an overall light, the work of the SDRW was particularly biased toward research and information-gathering operations for the benefit of government and industry, and this trend was accentuated by the transfer of the investment function in 1981. Three core departments, Research and Finance, Regional Policy, and Social Affairs were heavily involved in research work, as were a number of the 'cellules'. As well as helping to co-ordinate the implementation of the five-yearly plan, the SDRW was also involved in compiling it through its work on an inventory of social and economic needs in the region. It also prepared work for the Regional Economic Plan (Plan Régional d'Aménagement du Territoire Wallon - PRATW). It published various maps on the regional breakdown of agriculture, social services, land use and other factors in Wallonia, and undertook considerable sectoral research in areas such as natural resources, energy and transport. The Social Affairs Division was active in researching standards of health care, education and training, and facilities for the disabled, amongst other social needs. Some of this work was released to the public but its primary purpose was to be transmitted to regional and national government.

The 'Cellules'

As explained above, the cellules constituted a distinct part of the SDRW structure for, whilst they were administered by the SDRW, they were established and funded, and their remit defined, by either central or regional government.

Most prominent amongst them was the Housing Unit. Housing was originally a function directly administered by the SDRW under the terms of a Convention signed by the Société and the State in December 1977, the aim of which was to lower the cost of housing in Wallonia and revitalise commercial activity in the regional housing industry. The Unit, however, which assumed responsibility for housing under the terms of the 'Convention' in 1979, concentrated on building with experimental materials and new architectural designs. As a result, only a small number of properties were constructed, at a cost which was not below normal market prices.

The Unit for the Technical Promotion of Small and Medium-Sized Enterprises was established in 1979, with the aim of creating employment in technically-innovative small and medium-sized businesses. Its main function, the provision of loan capital to such companies, has been dealt with above (See 'Financial assistance to companies').

Under the terms of a Royal Decree in 1974, responsibility for the treatment of both domestic and industrial waste was given to the regional government, and as a result a Unit was established within the SDRW to undertake research and generally advise the regional authorities on the subject.

The Urban Heating Unit was formed in 1977, initially to undertake research into urban heating systems. In 1980 the Wallonian Regional Executive put the Unit in charge of introducing a developed system to five sites in the region in conjunction with the 'communes' (district authorities).

The Unit for the Management of Technical Contracts was directly responsible to the Regional Executive. It was set up in 1979 to carry out the function of administering and monitoring all industrial research and development contracts made between the regional executive and commercial enterprises in Wallonia. It also undertook studies into research and development on behalf of the regional government.

Société de développement régional de Bruxelles - SDRB

i) Statutory purposes, functions and powers.

Provision was made for the establishment of the SDRB, as with other SDR/GOMS, in the legislation concerning planning and economic decentralisation of 15 July 1970[59]. Its statutes were subsequently embodied in the Royal Decree of 16 July 1974[60]. The Société is therein classified as an 'organisme de droit public doté de la personnalité civile', and its statutory responsibilities combine the functions of a regional development agency as laid down by the 1970 legislation, and those of a local economic development council (intercommunale de développement économique). The former, as detailed above in the section on the SDRW, include the compiling of an inventory of regional needs, the transmission to the regional economic council of information useful to the elaboration of the regional plan, property operations, and public economic initiatives. The latter is a general function which permits the SDRB to advise the public authorities and other relevant parties on all matters relating to 'aménagement du territoire', roughly speaking, regional or territorial policy, within the Brussels agglomeration. Legislation in 1922 had originally allowed for the formation of intercommunales, or groups of communes which came together to provide common services for the areas within their responsibilities. The Economic Expansion

Law of 18 July 1959 made provision for the formation of intercommunales to deal with problems of economic development, but because of the problems of the bilingual Brussels community in finding agreed structures of government and representation, no such organisations were formed in the city. Thus, central government gave the SDRB responsibility for those matters which are in Flanders and Wallonia handled by intercommunales de développement économique. In this way, as will be seen, the SDRB has developed differently to other sdr/goms in Belgium.

In order to carry out its function, the SDRB, which according to legislation constitutes 'le seul organe d'exécution de la politique économique régionale sur le territoire de l'arrondissement administratif de Bruxelles-Capitale'[61] (the sole implementing body concerning regional economic policy in the Central Brussels area), was granted various powers according to the 1974 statutes. These include the power to co-ordinate public and private sector bodies in promoting social and economic development, to take 'positive action' to accelerate or amplify any public or private investments envisaged in the five-year plan, to buy, sell, let and equip, houses, business premises, and land, and if necessary, to acquire these by means of compulsory purchase.

ii) Control

The operations of the SDRB are regulated by three main statutes, the law of 15 July 1970, the law of 1 March 1922 relating to intercommunales, and the Economic Expansion Law of 18 July 1959. It is also subject to government control under the terms of the Royal Decree of 16 September 1973 discussed above in relation to the SDRW. The General Assembly of the Société itself appoints a company auditor (reviseur d'entreprise) who reports not only on the annual accounts, but also on the management of the Société by the Administrative Council. The Brussels region does not as yet have a structure of self-government as the other linguistic regions do, and the SDRB is therefore responsible to a Regional Ministry, set up within the framework of national government.

iii) <u>Source of funds.</u> (See also Table 2)

Under the law of 15 July 1970, the SDRB receives an annual subsidy from the budget of the Ministry of Economic Affairs. It also raises money through commercial channels with the permission of the Finance Minister. These loans can be backed by guarantees from the state, the province, the city authorities, or the communes. The Société's initial capital was originally subscribed by the communes of the city, and the province of Brabant, to the sum of 5,700,000BF.

TABLE 2 SDRB - Source of Funds 1981 and 1982

Financing of running costs	1982 (Initial)	1981 (Adjusted)
Operating grant from the Region	25,000,000	25,000,000
Operating grant from the Province	15,700,000	15,700,000
Grant from the Region in lieu of inherited functions	92,711,000	80,000,000
Capital subsidies for activities carried out on behalf of the Province	4,000,000	4,037,860
Own funds	36,292,788	44,570,868
Total	169,703,788	165,270,868
Financing of investment programme		
Regional subsidies	186,015,000	135,625,000
Self-generated finance	35,000,000	143,115,000
Total	221,015,000	278,740,000
Liquidation of debts		
Regional grant for the repayment of loans	58,648,999	50,536,411
Total	58,648,999	50,536,411
Total receipts	449,367,787	494,547,279

Source: SDRB annual reports

iv) Internal structure

The Société's governing body, the General Assembly, is made up of 96 members, elected for renewable terms of four years. 16 members are provided by the Brussels section of the provincial council of Brabant, 32 by the joint committee of the conference of burgomasters and the Metropolitan College (la Commission de contact entre la Conférence des bourgmestres de l'Agglomération bruxelloise et le college de l'agglomération de Bruxelles) with at least one representative from each of the 19 communes, and 24 by the employers' and trade union organisations. The Assembly must meet at least twice a year, being convened by the Société's administrative council, the members of which it elects. The Administrative Council consists of 24 members and carries out the general management of the Société, using extensive powers including that of framing its internal rules. The Société's president and administrator-general are appointed by the Administrative Council, which also chooses two vice-presidents. The president presides over meetings of both the General Assembly, and the Administrative Council. The president, administrator-general, two vice-presidents and eight members of the Administrative Council, six from the local authorities group and two from that of the employers and trade union organisations, appointed by the Council itself, form its Executive Committee.

The Société itself has five Departments, covering general services, financial and economic planning, technical services, regional policy and housing, and company support, and employs a staff of 27[62]. Like the SDRW (its Wallonian counterpart) the SDRB administers a number of units (cellules) which are entrusted with specific tasks by government such as the Brussels urban heating unit (cellule chauffage urbain bruxellois) and the technology unit (cellule technologie). In 1984, only one cellule or 'mission délégueé' was still operating, the urban heating unit.

The SDRB also operates, in conjunction with local universities, two 'commissions mixtes', composed of representatives of the SDRB, and academic and administrative staff of the University, which meet to discuss economic projects of common interest.

v) Expenditure (See also Table 3)

As with the SDRW, the expenditure of the SDRB is, to a large extent, dictated from year to year by the nature of its funding, which is often linked to a specific function carried out by the Société. For example, an annual subsidy is received for the payment of staff salaries, and the 'cellules' are financed by the Regional Executive. The manner in which the SDRB presents its accounts makes the calculation of annual expenditure totals, according to individual budget heads and overall expenditure, extremely difficult. In 1981, sums expended on investment, acquisition and development of land and buildings, infrastructure and urban renovation, and the repayment of loans, amounted to 278,740,000BF (£3.7m). If one adds to this, running costs, financial charges, and loan repayments, at 180,627,382BF (£2.4m), then total 1981 expenditure amounts to 459,367,382BF or £6.1m[63]. During 1981 and 1982, the emphasis on expenditure changed from the acquisition of land and buildings, to the development of industrial sites and the renovation of industrial buildings. This is reflected in the projected budget for infrastructure and renovation projects in 1982, which amounted to 217,000.000 BF (approx £3m) compared with an expenditure of 16,300,000BF (£0.2m) under that head in the previous year.

vi) History

The functions which the Société carries out can broadly be divided into four categories:

a) Planning

- the co-ordination of regional development plans to take in the needs of local economic interests
- the provision of information relevant to the formation of the plan to the regional executive, including an inventory of local needs.

b) Infrastructural provision

- the provision, servicing and management of industrial sites for businesses, including special sites for scientific research

- maintenance of an inventory of unoccupied buildings.

c) Business support

- information service for businesses concerning administrative requirements and means of financial support
- liason between businesses and financial institutions
- instigation of industrial projects, if necessary, in collaboration with the OPI (Office de Promotion Industrielle) and the SNI (Société National d'Investissement)
- participation in 'rescue missions', through membership of the special purpose committee, established by the Secretary of State for the Regional Economy to help business concerns in difficulties
- taking equity investment in private companies
- bringing together companies with converging interests.

d) Urban renovation

- technical assistance toward urban renovation
- co-ordination of certain urban renovation projects

At the local level, the Société is engaged in implementing the regional plan through 'commissions de concertation' which operate in each commune, and adjudicate on the right to proceed with projects which do not accord with the primary function of the area, as designated by the Plan.

As mentioned above, the SDRB compiles an inventory of the region's needs for the Five-year Plan, in close collaboration with the C.E.R.B and the Bureau du Plan.

With regard to its role in the provision and maintenance of industrial sites, the SDRB pursued, up to 1982, a vigorous policy of acquisition and fitting out of industrial land and property. By that date, the Société had acquired 94 hectares of land, 37 of which it was managing on behalf of the state, and 35 hectares of which was then occupied. The SDRB has not merely stuck to the construction of standard advance factories, but has diversified with the creation of science parks and common industrial properties for small businesses. SDRB property appears to be in considerable demand and tenants for the properties have to be approved by the Administrative Council. The Société has a list of criteria which such companies must meet, which include the creation of a specified number of jobs per hectare of land leased. It does not sell property, and has the power to make compulsory purchase of land adjoining existing businesses in order to prevent them having to leave the Brussels conurbation if they should wish to expand.

TABLE 3 SDRB Expenditure 1981

	BF
Investments	4,015,000
Acquisition of land and buildings	228,425,000
Infrastructural provision and renovation	16,300,000
Repayment of loans	80,536,411
Running costs	130,090,971
Total	459,367,382

Source: SDRB annual reports.

The SDRB does not give financial assistance to companies, save in extreme circumstances. In 1982, the Société had one investment in a company manufacturing medical apparatus, CELEBOR, (8mBF), which was taken in conjunction with the SNI, in view of the important nature of the company in relation to the Brussels economy, but its policy then was to abstain from further investment pending the establishment of the SRIB. The Société can, however, offer advice and information to companies on all the available assistance from both national and regional authorities, and can assist in the location of suitable industrial premises, and the arrangement of financial support. Over the first eight years of its operations, the Société claims to have had such contact with over 1800 firms[64].

Flemish GOM's (Gewestelijke ontwikkelingsmaatschappij)

In the following section, the five Flemish GOM's will be dealt with together. They are:

GOM Antwerpen (GOMA)

GOM voor West-Vlaanderen (GOMWV)

GOM voor Oost-Vlaanderen (GOMOV)

GOM voor Vlaams-Brabant (GOMVB)

GOM Limburg (GOM-L)

i) <u>Statutory purposes, functions and powers.</u>

Provision was made for the establishment of sdr/goms, as mentioned above, under the terms of the law of 15 July 1970 relating to economic planning and decentralisation[65]. The law gave authority to provincial councils to establish the agencies, and in Flanders a GOM was formed in each province. Their tasks were:

a) The general study, conception and promotion of economic development in their province.
b) Compilation of an inventory of the needs of the region, and passing on information relevant to the drawing up of a regional plan.
c) Right to make proposals to the private sector and the government and to co-ordinate proposals relating to the promotion of economic activity, physical planning, and other activities relating to the Regional Plan.
d) Acceleration or encouragement of public or private investment embodied in the Plan by compulsory purchase, developing, letting or selling property or taking any other form of action.
e) Execution in its own right or on behalf of the national government, provinces or municipalities of all compulsory purchases, and public works of a technical character.
f) Initiation of projects in conjunction with private sector, GIMV or NIM[66].

As well as having the power of compulsory purchase, the right to deal in property, and to advise public and private bodies in matters relating to regional development, the GOM's were also able to invest in local companies. However, this power was superceded by the advent of the GIMV (Gewestelijke Investeringsmaatschappij voor Vlaanderen), which took over the investment portfolios of the GOM's in 1981.

ii) Control

As with other sdr/goms in Belgium, the operations of the GOMs are regulated by the laws of 15 July 1970 and 17 September 1973, the latter making provision for the appointment of two officials, a Government Commissioner and a Finance Inspector to supervise the activities of each GOM. The GOMs act in accordance with the wishes of the Flemish Regional Executive.

iii) Source of Funds (See also Table 5)

The bulk of the GOMs funding takes the form of a State allowance to cover running costs, provided for by the 1970 legislation. This is presently administered by the regional executive. The GOMVB, for example, received 23m. francs or approximately £300,000 in this way in 1981, together with a grant from the province of Brabant of 3.7m francs (approx. £50,000) and sundry other income amounting to 2.9m francs (approx. £40,000). Its total income in that year, including the balance brought over from the previous year's activities was 38m francs or approximately £500,000[66]. Similarly, the GOM-L had an income of 33m francs (£450,000) in 1982[67].

iv) Internal structure (See also Table 4 and Fig 2)

The governing structures of the five GOM's are of a uniform nature, each comprising a General Assembly (Algemene vergadering), a Board of Directors (raad van beheer) and a Board of Commissioners (College der Commissarissen). Membership of all these bodies is divided equally between on the one hand representatives of the public sector such as provincial and municipal councillors, and staff of intermunicipal institutions, and, on the other, representatives of the private sector including employers from industrial, trade, and agricultural organisations, and representatives of employees' organisations. The General Assembly usually meets two or three times a year to receive the GOM's Annual Report and to discuss the GOM's overall policy. The Board of Directors is composed of members of the General Assembly and meets between three and six times each year. Similarly, the Board of Commissioners meets periodically through the year to act in a supervisory capacity in relation to the activities of the GOM. The Board is composed of a small number of members of the General Assembly, supplemented by the GOM's auditor, and the state-appointed Government Commissioner and Finance Inspector, who all sit in an advisory capacity. The overall management of the GOM is carried out by a Management Committee (Directiecomite), which is also made up of General Assembly members from public and private sectors, and customarily meets once a month, or every other month. The GOM's therefore make a clear distinction between the policy-making, supervisory, and implementing structures of their organisation. This latter function is carried out by staff whose position, pay and function is strictly determined by statute. At present, no GOM can employ more than 22 staff, though methods have been developed to circumvent this rule (See Chapter Five).

v) <u>Expenditure</u> (See also Table 5)

The expenditure patterns of the GOM's are extremely difficult to chart, given that they do not print accounts in conjunction with their annual reports. A rough picture can however be deduced from an analysis of their sources of funding, for as with the SDRW and SDRB, studied above, there is a close link between income and expenditure. The bulk of the GOM's expenditure is absorbed by 'werkingskosten', or running costs, which are partly paid for by the regional authority under the terms of the 1970 legislation. In the case of the GOM-Limburg, for example, running costs amounted to 32,008,870 francs, depreciation on property, materials and buildings accounted for 930,536 francs, and investment costs 1,134,000 BF[68]. The figures suggest that approximately 50% of the expenditure of the GOM's consists of staff salary payments.

vi) History

Unlike their counterparts in Wallonia, the Flemish provincial councils decided to establish five separate GOM's, one for each province, rather than a single unitary body covering the whole region. This decision was influenced in part by the existence of provincial economic councils in each province, which had been established in the late 1950's and early 1960's (the earliest, the Limburg Economic Council was established in 1954) as semi-private associations studying and promoting the economic growth of the province,, the latter mainly by the attraction of foreign investment. The GOM's took over the activities of these Councils in certain provinces, though in others, such as Limburg, the Council continued to operate alongside the GOMs.

Despite their small complements of staff, and limited budgets, the GOMs have involved themselves in a wide range of activities, whilst primarily concentrating on research and information work. To illustrate this, an outline of functions is listed below, drawn from a perusal of the annual reports of two of the agencies:

GOM-Limburg[69]

i) Research at macro and micro-level
ii) Encouragement of technological innovation
iii) Stimulation of exports
iv) Attraction of foreign investment
v) Development of local subcontracting
vi) Schools/industry liaison
vii) Provision of housing
viii) Development of tourist facilities
ix) Development of agriculture
x) Management of waste
xi) Improvement of public transport

GOM West Vlaanderen[70]

i) Research
ii) Support for national and regional planning
iii) Advice to the private sector on regional economic matters
iv) Promotion of new investments
v) Support for indigenous industry
vi) Investment (support for GIMV)
vii) Technological assistance
viii) Environmental and ecological assistance
ix) Development of tourism

However, the GOMs are not able to devote large-scale staff or financial resources to the majority of these functions. As an example, one might quote the technology transfer and promotion of joint ventures service offered by the GOM-L. This operates through a system whereby interested local companies contribute fees to a GOM-L fund, until sufficient capital has been accumulated to pay for the GOM-L's engineer to travel to a trade fair in the United States or Europe, at which he endeavours to arrange the client companies with suitable foreign partners[72].

Similarly, the GOMs role in the attraction of foreign investment has been run down in the recent past as a consequence of the establishment in 1983 of FIOC (Flanders Investment Opportunity Council), an all-Flanders body on which the GOMs and their provincial authorities are represented, and which has responsibility for the co-ordination of all investment promotion emanating from Flanders.

As mentioned briefly above, the Flemish investment organisation, GIMV, assumed responsibility for the investment functions of the GOMs under the terms of an agreement concluded in 1981 between the GIMV, the GOMs and the Flemish Executive. The GOM's have however, retained the right to make investments in exceptional cases.

The GOMs have also placed considerable emphasis on broader development activities, embracing areas such as the provision of housing, the improvement of public transport and the building up of regional infrastructures. In these fields, their role is that of advice and advocacy rather than implementation; in the field of housing, for example, the GOM's prepare, in conjunction with social housing associations, lists of projects to be carried out by the private sector which are submitted to the Regional Executive for approval.

TABLE 4 Governing Structures of the GOM's - number of representatives

	Algemene Vergadering	Raad Van beheer	College van commissarissen	Directiecomite
GOM Antwerpen	83	46	10	-
GOM Vlaams Brabant	81	41	9	18
GOM Oost-Vlaanderen	87	53	13	13
GOM West-Vlaanderen	95	37	9	15
GOM Limburg	61	29	10	13

Source: Annual Reports

Figure 2

Internal Structures of the GOM West-Vlaanderen

Policy-making

General Assembly (Algemene Vergadering)

Board of Directors (Raad van Beheer)

Managing Committee (Direktiekomitee)

Supervisory:

Board of Commissioners (Kollege van Kommissarissen)

Government Commissioner (Regeringskommissaris)

Finance Inspector (Inspekteur van Financien)

Administrative:

General Manager (Direkteur-Generaal)

Deputy General Manager (Adjunkt-Direkteur-Generaal)

Applied Economic Research (Toegepast-Ekonomisch Onderzoek)

Industrial Development (Industriele Ontwikkeling)

Technology and Environment (Technologie en Milienzorg)

Tourist Development (Toeristishce Promotie)

Source: GOMWV promotional material

Table 5

GOMVB - balance-sheet 1981 and 1982

Income	1981	1982
Balance carried over from previous year	8,910,259	5,041,147
State labour subsidy	23,000,000	28,000,000
Grant from province of Brabant	3,704,868	3,724,480
Sundry income	2,930,600	5,069,759
Total income expenditure	38,545,727	41,835,386
Expenditure		
Running costs	31,045,092	35,782,238
Depreciation	1,351,038	1,146,007
Provision on investments	1,108,450	140,412
Total expenditure	33,504,580	37,068,657
Balance	5,041,147	4,766,729

Source: GOMVB Annual Reports

Netherlands - Industrial Policy

Since the war, the Netherlands has been considered one of the most prosperous countries in Western Europe. It suffered comparatively greater infrastructural damage than Belgium during the Second World War, and its economy benefited in the post-war years from a planned reconstruction which as a consequence of wage restraints, made the country, for a period, 'a low-cost island'[72]. In later years, however, economic trends became more homogeneous throughout Benelux, and currently, whilst inflation in the Netherlands is running at one of the lowest levels of EEC countries (annual rate of 4.2% in the 12 months up to and including December 1982)[73] unemployment has increased to levels not previously experienced during the post-war period. A recent OECD survey on the Netherlands (January 1983) states that it can no longer be considered a 'low unemployment economy'[74], with 11.2% of the labour force out of work (Nov. 1982 figure). The survey adds that 'the high personal and collective living standards which have been so characteristic of the Netherlands are being jeopardised by the need to support a rapidly growing share of people without work'[75]. This statement presumably refers to the extent of social security provision in the Netherlands which Tinbergen has described as 'somewhat too generous'[76]. Unemployment benefits amount to more than 80% of previous income in the first year and then 75% in the second. In 1975, the Netherlands was allocating a greater proportion of its gross national product to public expenditure than any other major industrialised nation[77]. The present Christian Democrat-Liberal Coalition government consequently has, as its major aim, a reduction in the public sector borrowing requirement to bring it in line with the EEC average.

As in other European countries, state intervention in industry increased in the Netherlands during the seventies. In 1972 the government established NEHEM, the Dutch Restructuring Company[78]. This body originally acted in an advisory capacity, recommending changes at a sectoral level of industry to government, but in 1975 it was resolved that it should receive a proportion of the budget of the Ministry of Economic Affairs with which it should assist companies in difficulties[79]. The government also has a controlling stake (50.3%) in the National Investment Bank, which provides capital for industry[80]. Keyser and Windle refer to it as 'mainly a policy instrument of the state, used to stimulate investment, exports and certain regions and to improve employment conditions'[81]. This Bank and the Dutch Bank for the Middle Classes (NMB) which concentrates on credit for small and medium-sized enterprises 'play an important role in the sector policy of the government... by providing credit for investment to undertakings whose existence or expansion is in danger due to a lack of finance'[82]. The NIB also has close links with the regional development agencies, in particular, NOM, where a board member of the Bank was initially working as a part-time director. The NIB itself can be directed by government to provide equity funding for strategic companies.

As many public enterprises in the Netherlands operate on the basis of a limited liability company, the dividing line between 'public' and 'private' is more vaguely drawn in the context of the Dutch economy than it is in certain others. Nevertheless it has been suggested that in the Netherlands 'public enterprises have a substantial influence on several sectors of the economy'[83]. The activities of state institutions, in the form of the regional development agencies, in tackling the problems of economic structure have not been without precedent, in that the state has been involved for some years in the provision of industrial credit.

Regional Problems

The initial post-war difficulties of the regions concerned structural unemployment in areas such as Drenthe (in South-East Drenthe, the unemployment rate in 1950 was 15.5%)[84] whilst nationally the Netherlands experienced low levels of unemployment. This structural unemployment was mainly due to a loss of manpower from agricultural activities. There were also problems of planning concerning the growth of the Randstad, the 'Ring City', a semicircular development encompassing Amsterdam and Utrecht in the north, and the Hague and Rotterdam in the South. This was expressed in 1956 by a government report 'The West and the Rest of the Netherlands' which, as its title suggests, was concerned that the unchecked development of the Randstad was undermining the economy of other areas of the country[85]. It called for a policy of decentralisation to be instigated. The rundown of traditional industries, such as coal and textiles, also had serious effects in regions which were heavily dependent upon them as the main employers of labour.

There can thus be established three types of problem regions which post-war governments in the Netherlands have faced:-

i) Predominantly rural areas with declining agricultural employment and an insufficient industrial base (ie Drenthe, Zeeland)

ii) Areas dominated by a single traditional industry (South Limburg, Tilburg)

iii) Congested area around the Randstad.

Lapple and van Hoogstraten note in their study of regional development in the Netherlands that 'a clear shift has taken place in the economic structure of the northern and the southern provinces, in the sense that textiles, leather and footwear, and timber and furniture are becoming more important. This involves branches of industry which can be characterised as weak, in respect of both their labour productivity and the number of job s[86].

Regional Policy

The initial post-war measures in this field were designed to overcome the pockets of structural unemployment mentioned above. By 1951, nine Development Areas had been designated, and these qualified for infrastructural provision, and financial incentives were offered to companies prepared to invest in them[87]. Subsequent policy became closely related to physical planning, in that it was influenced by the 'West and the Rest' perspective, the desire to make optimum use of the country's land surface by drawing development out from the Randstad in radial lines. This idea was first expressed in the 1948 report 'The Development of the West Netherlands' which envisaged this growth taking place along the main transport routes, and separated by wedges of open land[88]. The policy was supported in later years by the First and Second Reports on Physical Planning (1960 and 1966).

In 1959, the coverage of the Development Areas was increased to almost 50% of the land surface of the Netherlands, whilst the province of South Limburg was designated a Reconversion Area in 1966, following the decision to rundown the local coal-mines. Tilburg was similarly designated in 1968, an area of Noord Brabant, which was suffering from the decline of the textile industry[89]. The trend of expanding the number of designated areas was reversed in 1971 when the government reduced the coverage of such areas to the Northern Development Area (Friesland, Groningen, Drenthe and part of Overijssel) and the Reconversion Area of South Limburg, which represented 30% of the country's land mass and 17% of its population. The official explanation of this reversal in policy was that government support should be concentrated within this comparatively small area, because a self-sustaining process of growth had been initiated in the other assisted regions.

The measures which have been applied to development areas in the Netherlands have generally taken the form of infrastructural provision and financial incentives for industry, the latter being applicable to specified development nuclei within problem regions. The original 9 development areas contained 36 development nuclei or growth-centres, a number which had been increased to 44 by 1959[90]. In order to control this growth, which arose mainly from political considerations, and which was believed to be weakening the effectiveness of the policy, the Ministry for Economic Affairs introduced a distinction between primary and secondary nuclei. In 1971, under the provisions which cut back the coverage of the development areas, aid was made available throughout South Limburg, without reference to development nuclei, whilst 28 nuclei were designated in the Northern Development Area. In recent years, more nuclei have been identified outside the problem regions, making firms which choose to locate in them eligible for capital grants, and illustrating the political pressures which tend to disrupt the planned application of regional policy by central government.

In 1978 a national investment incentive was introduced in the form of the WIR (Wet Investeringsrekening)[91]. It contains a specific regional element in that on top of a basic national premium a special regional allowance is made available in parts of the Northern Development Area and South Limburg. Nevertheless, it remains an example of how regional policy in the Netherlands is of secondary importance in relation to national economic policy. Regional incentives are far fewer than in most other EEC countries[92], only two being of significance, the regional element of the WIR and the investment premium (IPR), a capital grant of up to 25% of eligible fixed capital costs available to projects of a 'regionally exporting character', which are starting up or expanding in designated development nuclei or in South Limburg. Despite this low level of government support for regional development, studies of its effectiveness have reached generally favourable conclusions. One such study concluded that 'regional policy could tentatively be regarded as having been effective in roughly half of the Dutch assisted areas'[93], whilst another argued that 42% of the net increase in employment in the

Northern Development Area between 1960 and 1967 could be attributed to the effects of regional policy[94]. This latter, however, also suggested that 'the relative effectiveness of regional grants had declined in the 1970's[95]. F J Gay suggests that regional policy in the Netherlands has been more successful than in Belgium because, without having to strike a political balance between two contending communities, it has paid closer attention to physical planning[96]. The 3rd Report on Physical Planning (1974), reflecting the importance of such provisions in a country with the highest population density (363 persons per sq km)[93] of all OECD countries, altered policy from the earlier emphasis on radial lines of development emanating from the Randstad, to a spreading of population to underdeveloped areas, with the consequent need for indigenous economic growth within these areas. Therefore, in 1974/5, three regional development agencies were established, in the Northern Development Area (NOM-Noordelijke Ontwikkelings Maatschappij - The Northern Development Company), in Limburg (LIOF-Limburgs Instituut voor Ontwikkeling en Financiering - Limburg Institute for Development and Finance) and in Overijssel (OOM - Overijsselse Ontwikkelings Maatschappij - Development Company for Overijssel), and these were followed by agencies in Gelderland and Noord-Brabant[98].

All the agencies have a general responsibility for strengthening the socio-economic structure of their region and reducing local unemployment, but only two, NOM and LIOF can offer any form of financial support to industry. The agencies constitute, under Dutch law, limited liability companies, and their shares are held by national, regional or local government. They have had to operate in unfavourable economic circumstances from their inception. Not only were levels of domestic investment reduced by the onset of the recession, but policy to control the growth of the Randstad, which inevitably favoured underdeveloped areas as a consequence, was weakened by a drop in the metropolitan area's population by 2% between 1972 and 1975[99]. This indicates a breaking-down of the traditional base of regional policy, the 'West and the Rest' concept. Some commentators have argued that the Randstad development is simply shifting eastwards to become the New West[100], but Lapple and van Hoogstraten argue that to continue to perceive the problem of uneven regional development purely in terms of the (New) West and the Rest is to use too broad a criterion to grasp the processes of uneven development[101].

Netherlands - Industry and Finance

The commercial banks in the Netherlands provide a wide range of credit facilities for the business sector, as do the agricultural credit banks (rabobanks)[120]. The principal suppliers of long-term finance for industry and commerce are semi-public bodies. The National Investment Bank (De Nationale Investeringsbank -NIB), and the Dutch Bank for the Middle Classes (Nederlandsche Middenstandsbank - NMB) for example, both provide credit for investment to undertakings whose existence or expansion is in danger due to lack of finance.

The NIB provides equity investment, loans and guarantees, some of which are underwritten, and on occasion, specifically requested by the state. The state has a majority share in the NIB, and the bank itself is mainly a policy instrument of the state, used to stimulate investment, production for export, and the economies of depressed regions. In this latter respect, the bank co-operates with agencies such as NOM, where a board member of the Bank was originally one of the two part-time directors of the organisation. The NOM also uses the expertise of the Bank for financial and economic investigations, and the management of its own investments.

The Netherlands Participation Company (De Nederlandse Participatie Maatschappij - NPM) was formed as an offshoot of the NIB by the Bank in partnership with a number of industrial investors, and provides equity investment on a temporary basis[103].

In 1972 the State established the Dutch Restructuring Company with the aim of improving the structure of industry[104]. Its functions included the promotion of sectoral studies, the provision of advice to firms, and acting as an intermediary between firms and financial organisations. In 1975, the government expanded NEHEM's role to give it part of the annual budget of the Ministry of Economic Affairs, greater financial independence, and a responsibility to give assistance to companies in difficulties. In 1983, a new central government organisation, Maatschappij voor Industriele Projecten (Company for Industrial Projects) was created in order to offer risk capital to the private sector[105].

Noordelijke Ontwikkelingsmaatschappij - NOM

i) Statutory purposes, functions and powers

The NOM was established by the Dutch government in 1974 as a private limited liability company. Its shares are held by the state through the Ministry of Economic Affairs. The remit of the NOM stems not from legislation, but from Articles of Incorporation published on 19 March 1974. These endow the NOM with the statutory aim of improving the socio-economic structure of and employment in the Northern Netherlands, which is defined as comprising the provinces of Groningen, Friesland, Drenthe and parts of Overijssel (Overijssel was removed from the NOM's remit in 1984). Clause Three of these Articles outlines the NOM's purposes as:

i) stimulating the establishment of new enterprises in the region and participating in the share capital of new and existing firms.
ii) making contacts with enterprises both within and outside the Netherlands to stimulate interest in the North of the Netherlands as a possible future location.
iii) assisting firms which are interested in locating in the region by means of information, advice and mediation.
iv) developing initiatives that support economic activities in the North[106].

To carry out these tasks, the NOM has the power to take investment in companies, subject to certain criteria laid down by the government and discussed below [see ii) Control]. The NOM has the capability to acquire and dispose of land and property, but in practice, this power has only been exercised in exceptional circumstances. Its work tends to be concentrated on research, information and advisory work for both government and private industry.

ii) Control

The NOM is accountable to the Dutch State through the Ministry of Economic Affairs, which owns all the shares of the NOM. Control is therefore through the exercise of shareholders' rights, such as under Clause 2 of the Articles of Incorporation, which stipulates that the management of the NOM needs the approval of a meeting of shareholders before proceeding with equity investment or borrowing money. In practice, therefore, these decisions require the approval of the Minister of Economic Affairs. According to an agreement made between the NOM and the Dutch State concerning equity investment by the NOM, the minister will only sanction projects which conform to certain broad requirements, including that the project be located in the Northern Netherlands, that its size should at the minimum be equivalent to the minimum applied to projects eligible for the main regional investment incentive, the IPR, and that it should make a contribution to the local socio-economic and employment position, whilst having good prospects of viability[107]. The financial relations between the NOM and the state, which are covered in a separate agreement (Financierings-en Garantieovereenkomst), will be dealt with in a subsequent section [(iii) sources of funds].

The NOM's Board of Directors (Raad van Commissarissen), which is responsible for supervising the internal management of the organisation, is appointed by the Minister of Economic Affairs, and contains representatives from the Ministry of Economic Affairs, and the Ministry of Finance.

Management staff are appointed by the Minister of Economic Affairs who also has the right to suspend or dismiss them.

iii) Source of funds

The funding of the NOM is closely linked with the control exercised over the organisation by the State. It is controlled by a Financing and Guarantee Agreement made between the NOM and the State. According to its terms the Minister of Economic Affairs fixes a 'ceiling' each year for the amount which the NOM can raise through loans guaranteed by the State. NOM can, therefore, raise loans up to this set amount under state guarantee on the capital markets, or in exceptional circumstances, directly from the State. The State also sets a ceiling on the NOM's current account, which is meant to provide for its short-term needs, the rest of the capital raised from external loans being set aside to cover the costs of NOM investments[108].

As well as guaranteeing the NOM's raising of capital on the open market,, the State pays the organisation's annual operating costs which include staff salaries, expenses, and the cost of promotional and information services. In 1983, these costs amounted to 6.476m Dutch guilder[109].

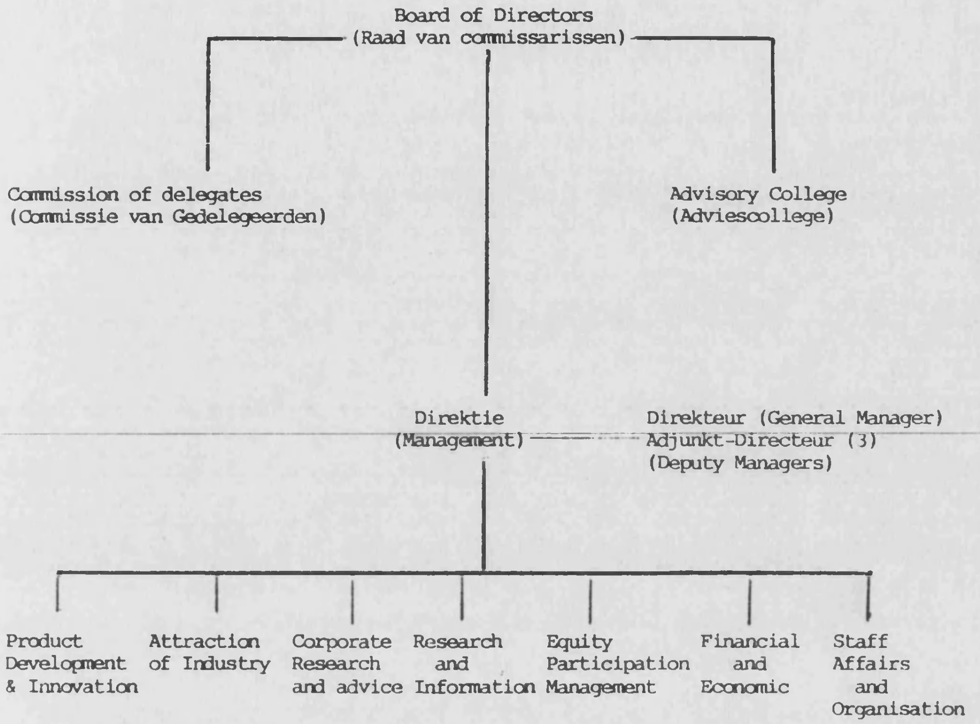
Until 1983, the investment activities of the NOM have made negative returns each year. These 'exploitation losses' it was agreed in 1974 should be liable to be claimed back from the State by the NOM in the case of extreme financial difficulty. However, these losses have steadily mounted year by year representing in 1982 a claim on the State of Dfl 194,498,000, though 1983's more favourable results reduced the figure outstanding to Dfl 172,488,000[110].

iv) <u>Internal structure</u> (See also Fig. 3.)

The senior authority within the NOM is the Board of Directors (Raad van Commissarissen), which in 1983 consisted of 13 members, appointed by the Minister of Economic Affairs and drawn from representatives of the four provinces in which the NOM operates, employers' organisations, and the Ministries of Economic Affairs and Finance. Trade union organisations were originally represented on the Board but withdrew in 1977 after expressing concern over the NOM's refusal to support certain ailing companies.

Figure 3

NOM - Internal Structure



Beneath the Board of Directors is a Commission of Delegates (Commissie van Gedelegeerden), a three-man Commission consisting of the chairman of the Board, and provincial and employers' representatives. This has not operated, in practice, and the task of supervising NOM's activities, which it was created to fulfil, has been carried out instead by the Board of Directors. The Ministry of Economic Affairs has also established an 'adviescollege' (college of advice), consisting of representatives of Northern municipalities and of local companies, whose role is to provide advice for the Board of Directors, and maintain links between the NOM and the people of the area it serves.

Since its inception in 1974, seven departments have evolved within the overall operating structure of the NOM. The original 'core' sections are the Staff Affairs and Organisation Department, the Product Development and Innovation Department, the Attraction of Industry Department, and the Corporate Research and Advice Department. The Research and Information Department was set up to give support to the latter two departments through the collation of economic and other data. Following the growth of equity investment in local companies, an Equity Participation Management Department was establishes, followed in 1978 by a Financial and Economic Department which evaluates equity participation proposals.

The NOM currently employs 31 staff, the majority of which are recruited direct from industry[111].

v) Expenditure (See also Table 6)

Annual expenditure figures are not reproduced in NOM's annual reports. However, figures extracted from profit and loss returns published in the NOM's accounts indicate that a relatively small but constant part of NOM expenditure is consumed by salaries and other operating costs, whereas the bulk of outlay is spent on the provision of equity participation and loan finance. Expenditure on equity and loans is also more prone to fluctuation from year to year.

The State guarantees the year-on-year expenditure of the NOM by placing a 'ceiling' on the amount that the organisation can raise in State-guaranteed loans on the capital markets. This 'ceiling' was originally set at Dfl 75,000, but, by 1983 had been extended to Dfl 525,000.

The NOM's annual operating losses have been considerable and reached a peak in 1982 (the year of the Magnesia write-off, see below) of Dfl 103m, though in the following year they were reduced to Dfl 30m.

vi) History

When the NOM was established in 1974, it took over the work and absorbed the staff of the 'Industrialisatie Bureau Noorden des Lands' (Industrialisation Bureau for the North of the Country-

IBN). The IBN had been formed by the government in the late 1960's to combat the special economic problems of the area, which was affected by a decline in employment in both the agricultural and textile industry sectors. Its main functions were the attraction of industrial investment, and support for ailing indigenous industries. However, the IBN was not empowered to offer companies financial support, and it was the desire for an agency with greater powers in this respect which led to the creation of the NOM[112].

The NOM commenced operations at a time when the economies of Western Europe were entering into recession, and it was initially involved in 'rescue' missions, the provision of equity finance, on a reactive basis, giving advice and financial support to local companies in need of restructuring. Only gradually did it develop a more planned approach to its task of regional economic regeneration, through the broadening of its departmental structure and the elaboration of predetermined criteria for investment.

The NOM prefers to take minority investments in firms which as well as being commercially viable, have innovative potential in terms of their product or production processes. That the NOM takes these factors seriously into consideration when evaluating a prospective investment is emphasised by the fact that 14 of the 30 possible participation cases which it investigated in 1983 were eventually rejected[113]. Details of the NOM's investment portfolio are contained in Table 7.

The NOM has, in the past, divided its activities into four categories for the purpose of analysis. The first of these is those activities concerned with new establishments, or more precisely the attraction of industry. These include promotional and publicity work, the utilising of overseas agents in countries such as Japan and the USA, the dissemination of information concerning the availability of land and industrial property, the nature of the labour market, and the social and economic infrastructure of the region, and in certain cases, the provision of equity and/or loan finance.

The second category, that of development projects, includes those companies which the NOM attempts to aid through the promotion of technology transfer deals, and joint ventures. The NOM has been active in seeking to introduce new processes into the industry of the region through the acquisition of patents, and co-operation with technically-advanced companies overseas. This is felt to be a particularly important factor for small and medium-sized companies, which predominate in the Northern Netherlands, and generally, cannot afford to maintain their own independent research and development capability.

TABLE 6

NOM Expenditure Patterns - 1979-1983

(F1,000)	1979	1980	1981	1982	1983
Salaries and social security	2,528	2,775	2,855	3,292	3,081
Operating costs	2,449	2,654	3,782	2,859	3,395
Interest charges and financing costs	15,919	22,196	25,993	26,226	28,323
Provisions	44,868	18,354	29,764	80,463	5,868
Total	65,764	45,979	62,394	112,840	40,667

Sources: NOM Annual Reports 1979-1983, Profit and Loss Accounts

LIOF Expenditure Patterns - 1979-83 (estimated)

(F1,000)	1979	1980	1981	1982	1983
Total Operating costs	3.9	5.1	5.9	7.6	7.4
Financial charges	2.0	2.4	3.4	10.3	11.0
Investment costs	17.0	9.6	34.0	9.9	7.2
Total	22.9	17.1	43.3	27.8	25.6

Sources: LIOF Annual Reports

TABLE 7

NOM Investment Portfolio 1979-1983

	1979[1]	1980	1981	1982	1983
Number of investments of which:	28	28	33	27	23
Majority holding (over 50%)	12	15	15	15	13
Minority holding (50% or less)	16	13	18	12	10
Value of investments (fl,000)	209,283	168,586	182,282	120,240	166,186
Employment in invested companies	5,236	5,465	4,784	3,792	3,576

1 - as at 31st December each year

Source: NOM Annual Reports.

The NOM offers advisory services to companies all over the Northern Netherlands, but it monitors most closely those in which it has made investments. It can also put companies in contact with government institutions, financial organisations and companies interested in technical co-operation, and can give direct advice on financial, marketing and technical matters. The NOM can also, in exceptional cases, arrange for specialist managers to be seconded to companies on a temporary basis.

Finally, as mentioned above, the NOM has been from its inception, active in investing in companies. It has used this tool to attract new industry, to promote industrial research and development at a local level, and to reorganise existing industry. Trends in investment by the NOM have tended, in recent years, to reflect those apparent in other agencies, namely a reduction in the size of the investment portfolio, both in terms of the number of companies invested in, and the value of the investment portfolio. This may, in part, reflect government concern to involve the private sector more closely in this activity (co-financing) and the political consequences of the writing-off of f 62.5m of the NOM's investment in Magnesia International and Noordelijke Zoutwinning B.V. in 1982, but it could also be due to the establishment of a national government risk-capital organisation, MIP. (See above - Netherlands - Industry and Finance.)

nv Industriebank LIOF (Limburgs Instituut voor Ontwikkeling en Financiering)

i) Powers, Functions and Purposes.

LIOF is an independent company founded in 1975 on the initiative of the government, but bounded by the legislation customarily applying to all Dutch companies. Under the terms of its Articles of Incorporation it was given a general responsibility for the co-ordination of all industrial development in Limburg[114]. Its main task is to promote and develop, on its own initiative, all activities relevant to the industrialisation of the province of Limburg. A secondary role is to give advice and support, whenever requested, to existing industries and public authorities on all aspects of trade and commerce.

These tasks are to be carried out by the following methods[115]:

a) stimulating initiatives leading to the establishing of new enterprises, in the industrial, services and administrative sectors;

b) creating interest for establishing industry throughout the province, as well as expanding present enterprises;

c) giving guidance to firms showing interest in establishing in Limburg, and stimulating existing enterprises by means of:

- giving information and advice
- intermediating with requests for investment grants and other subsidies;

d) management of industrial sites in Limburg;

e) lending credit to, giving guarantees for and participating in, share capital of existing and new enterprises which offer economic perspectives and which improve the labour situation in Limburg;

f) giving assistance which leads to the lending of credit by a third party to enterprises listed under e) above;

g) the performing of any operations which in any way are connected with the above.

The remit of LIOF extends over the whole of the province of Limburg, the Netherlands' most southern province.

ii) <u>Control</u>

LIOF is not formally amenable to central government control, being accountable, as a limited liability company, to its shareholders. In the case of LIOF its shares are split three ways between the central government, which owns 34%, the provincial government, which also owns 34%, and a group made up of social and economic bodies, the municipalities, chambers of commerce, banks, and various other institutions, which own 32%[116]. Two representatives of central government sit on the LIOF Board of Directors (Raad van Commissarissen) but they can and have been outvoted by the five other directors[117]. Central government also undertakes to guarantee the raising of capital by LIOF on the open market, up to an agreed limit, which, in 1984, stood at Dfl 250m.

iii) Source of funds

The LIOF is financed in a manner similar to its sister agency, the NOM, notwithstanding the difference in their ownership structures. The bulk of the LIOF's expenditure is financed by raising capital on the open market guaranteed by either the national or provincial government. In 1983 the national government guaranteed Dfl 20.5m in long-term loans arranged by the LIOF[118]. The national government also pays the bulk of the LIOF's annual operating costs, which in 1983, amounted to Dfl 7.4m. (National and provincial authorities pay the sum of LIOF's operating costs minus any income from investments.)

iv) Internal Structure (See also Fig 4)

As a limited liability company, the overall control of the LIOF rests with the Board of Directors (Raad van Commissarissen), which is made up of seven members,, two of whom represent the Ministry of Finance, and the Ministry of Economic Affairs. The Board has responsibility for the taking of all major policy-decisions, including the approval of investment projects. It also approves the annual report and accounts. The Board receives advice from an advisory board (Raad van Advies), which is made up of representatives of central and provincial government, employers and trade union organisations, social and economic institutions, and the banking sector.

The staff of LIOF work under a managing director, and until 1985 operated in four departments, reflecting the major functional responsibilities of the LIOF: the attraction of industry, provision of finance for industry, industrial advice and encouragement of innovation. In February 1985, the internal structure of the LIOF was reorganised according to two divisions, Finance, and Development, in order to assist the launching of projects and innovative processes on the LIOF's own initiative[119].

The number of staff employed by the LIOF, as at 1st April 1984, was 26[120].

v) Expenditure

As with the NOM, gross expenditure figures for the LIOF, sub-divided by function cannot readily be extrapolated from its annual reports. Operating costs, which include salaries, interest charges, depreciation and promotional and advisory costs, have risen steadily from Dfl 1.2m in 1976 to Dfl 7.4m in 1983[121]. Financial costs, of which the chief item consists of interest charges, constituted in 1983 f 11m, whereas the provision of equity and loan finance to industry accounted for Dfl 7.2m. The total expenditure of the LIOF in 1983 can thus be estimated at f 25.6m, or approx. £6.1m. However, this figure would appear to represent a drop from the levels of previous years, in particular with respect to the amount spent on industrial investment, which in 1981, for example, totalled Dfl 13.8m in equity finance, and Dfl 20.2m in loans.

vi) History

The LIOF was formed in 1975 to take over the work of the Industriebank Limburg, the Economic Department of the Economic Technological Institute Limburg (ETIL) and the Foundation for the Economic Development of South Limburg (SEOL). It was created by government initiative out of the reorganisation of a local industrial credit bank, the Industriebank, which had itself been established as far back as 1935[122], and in this way it acquired its unusual shareholding structure, which takes the form of a three-way split between central government, the provincial authority, and the original Industriebank shareholders, who include representatives of central government, of local political groups and of social and economic institutions[123]. The industrialisation of the province of Limburg had been centred upon its coal-mining industry, and the economic difficulties of the area derive from the decision of the Dutch government in 1965 to run the coalfield down to closure. This programme was completed in 1975, and the establishment of the LIOF in the same year represented an attempt to instigate a new phase of economic development in the province involving the diversification of the industrial base[124].

As the original departmental structure of the LIOF suggested, its activities have generally revolved around four functions, the attraction of industry, the provision of finance to companies, the provision of advice and the encouragement of innovation. In order to promote Limburg as a favourable industrial location, the LIOF maintains three offices abroad, staffed by 'foreign acquisition representatives'[125]. These are based at Atlanta and Los Angeles in the United States, and Tokyo in Japan. In encouraging investors to locate in Limburg, the LIOF produces promotional material giving information on various social and economic aspects of the province. It is also able to act as a broker to guide the investor through the installation of his/her project, and to liaise with relevant institutions concerning such matters as the availability of government grants and of industrial property. In the latter respect, the LIOF, though not involved in the construction of factories, is empowered to acquire and develop existing factory sites, and co-ordinate industrial parks.

The LIOF has also been able to offer various financial facilities both to incoming investors and indigenous companies. The most significant of these is equity investment, which the LIOF makes in the case of special projects which are likely to make a definite contribution to the improvement of employment opportunities in the province. All such investments include a 'buy-back' option which is designed to ensure that the LIOF's commitment will be of a temporary nature and that the independence of the company concerned will be safeguarded. At the end of 1983, the LIOF's portfolio was made up of 28 companies, 6 of which represented investments of more than 50%, employing 7,350 personnel[126]. However, this figure is considerably distorted by the inclusion of 5,500 employees at the Volvo car plant at Helmond, LIOF having a 3% stake in Volvo Car B.V., the Dutch subsidiary of the Swedish car firm. LIOF can also offer subordinated loans and assistance toward the long-term lease purchase of land and buildings. Apart from giving direct financial assistance, LIOF acts as a mediator between individual entrepreneurs and the government concerning the 'Special Financing' regulation, a scheme whereby companies may obtain credit from the NIB backed by a government guarantee, and as an advisor to the government on the issuing of guarantees to banks giving credit to small and medium-sized enterprises in Limburg. LIOF also acts as the instrument in the Limburg area of the Haagse Contact Group (Hague Contact Group), a committee made up of representatives of the Ministries of Finance, Economic Affairs and Social Affairs, the NIB and the NEHEM which is responsible for the allocation of funds, on a regional basis, in accordance with national social and economic policies[127].

As well as monitoring its own investments, the LIOF is able to offer advice to local business on matters such as accountancy, financial organisation and management. It is also responsible for advising the provincial government on matters concerning the preparation of the national government's four-yearly regional development plan, the provincial government being formally involved in the consultation procedure which precedes the drawing-up of the plan. The LIOF is also closely involved in the encouragement of technological innovation, and research and development at company level, and itself promotes joint ventures, acquires patents and conducts feasibility studies into new products and processes.

Figure 4

LIOF - Internal Structure (to 31.1.85)

i)

Board of Directors
(Raad van Commissarrisen)

Advisory Board
(Raad van Advies)

Managing Director

Acquisition Dept	Finance Dept	Industrial Advice Dept	Innovation Dept
Acquisition of new industries	Direct and subordinated loans	Support and guidance of Limburg enterprises	Encouragement and support of innovation
Guidance throughout the project	Application for investment grants	Planning of relocation projects	Feasibility studies
Coordination of industrial parks	Participation in venture capital	Arrangement of product development loans	
Advice on joint ventures	Lease purchase arrangements		

As from 1 Feb, 1985 the internal structure of LIOF was reorganised according to the following broad outline:

ii)

Finance Division	Development Division
Acquisition Innovation Project Development	Investment Research Monitoring and Aftercare

Sources: i) LIOF promo. material
ii) Interview with P Niessen, Jan 1985.

Development agencies in other parts of the Netherlands: GOM (Gelderland), OOM (Overijssel) and BOM (Brabant)

These three agencies are considerably smaller in terms of staff and financial resources than either the NOM or the LIOF. Of the three, BOM was formed as recently as 1984, to work in the province of Brabant, and in view of its comparatively brief existence, will not be discussed further.

OOM

The OOM was established in 1975, following complaints from the province of Overijssel that it was suffering unfairly in economic terms, in comparison with the neighbouring areas of the Northern Netherlands, which enjoyed development status, according to central government regional policy[128]. The shares of the OOM, which like the NOM and the LIOF is constituted as a limited liability company under Dutch law, are 100% owned by the provincial authority[129]. It is funded by subsidies from the provincial and national authorities, the latter through the Ministry for Economic Affairs. In 1982, the provincial subsidy amounted to Df1.75m and the national subsidy Df1.67m. Total expenditure was in the region of Dfl3.5m (£830,000), of which approx. Dfl2.5m, or 70%, was made up of running costs, 'apparatskosten'[130].

The OOM is governed by a Board of Directors (Raad van Commissarissen), which is comprised of 15 members, including representatives of central and provincial government, trades union and employers' organisations, financial institutions, and the ETIO (Economic and Technological Institute for Overijssel). OOM's functions include the attraction of inward investment, the promotion of technical innovation, the provision of support and advice to new and existing enterprises, and the provision of capital to industry. In 1982 its investment portfolio was made up of 5 equity investments to the value of Df1,995,000, and 4 loans to the value of Dfl875,500. Of the 5 equity investments, 4 are guaranteed jointly by the provincial authority and the Ministry of Economic Affairs, and one by the province alone. All are minority holdings. Of the loans one is guaranteed by both the provincial authority and the MEA, and 3 by the province alone.

The staff of the OOM in December 1982 numbered 15.

GOM

The province of Gelderland has a controlling 51% stake in the share capital of GOM which operates, as other Dutch agencies, as a limited liability company. The GOM's operations are subsidised by both the provincial authority and the national government, through the MEA. In 1981, the total subsidy received amounted to Dfl946,215, divided equally between the two contributors[131]. The GOM's work is divided into six areas: finance, investment, advice and management support, product and production development, exports, and sectoral development.

In 1981 the GOM had six employees.

Table 8

Dutch regional agencies - comparative financial and staff resources

	Estimated current annual expenditure (Dfl)	Staff
NOM	40.7m	31
LIOF	25.6m	26
OOM	3.5m	15
GOM	0.9m	6

Source: Annual Reports.

Luxembourg

The comparatively small land area of Luxembourg (2,587 sq km[132] - approximately the size of Wiltshire) makes it difficult to analyse in the same context as the two nations to which it is joined in economic union, Belgium and the Netherlands. The strength of the Luxembourg economy has been built on its iron and steel industry, which, despite attempts to diversify the country's industrial base, still, in 1980, employed 12% of the country's workforce, and accounted for 15.5% of GDP.

As Keyser and Windle have noted 'in the years previous to 1975 unemployment was virtually non-existent in Luxembourg'[134]. Indeed, the main impediment to the continuing growth of the economy was perceived to be the small size of the available workforce. Riley and Ashworth were able to write that 'in spite of the obvious prosperity of Luxembourg, the future is clouded by the acute shortage of labour'[135]. In fact, 'in 1975 Luxembourg was hit by the severest economic crisis since the Second World War'[136], a crisis which affected it more severely than other countries because of its dependence on steel, demand for which commodity plummeted. Since 1975, Luxembourg has had to face problems of economic recession which it had not previously experienced. Unemployment which was in that year 0.2% of the active population had risen by 1982 to 1.4% with inflation running at 10.8%[138], higher than in both Belgium and the Netherlands. Consequently, the Luxembourg government has become more involved in industrial policy, and, in particular, in attempts to alleviate unemployment. Initially, a partial employment scheme was introduced, whereby the State pays a percentage of the average income of those workers laid off when demand is low. Special public work projects were instigated (travaux extraordinaires d'intérêt général) such as the restoration of public buildings, and the construction of roads and bridges, and, since 1979, the government has made up 15% of the difference between the average wages formerly received by steelworkers, and the market rate for their redeployed jobs[139].

The government has not been particularly active in the manufacturing sector in the past, choosing to create nationalised enterprises in areas concerned with the generation of public goods and services (eg transport, water). Though the need to diversify industrial growth was recognised as far back as the late 1950's, efforts to attract foreign investments, were, if effective, nevertheless of an 'ad hoc' nature. A Board of Economic Development was formed, mainly on the initiative of the then Grand Duke's brother, Prince Charles, and the American businessman, J Gurley[140]. These two men undertook a promotional tour of the USA in the early 1960's, which attracted some 30 companies to Luxembourg. Following this success the Board ceased to meet until 1977 when it was revived, to consist of 40 to 50 government officials, members of the Chamber of Commerce, employers, managers and foreign investors. They do not meet as a body, but provide hospitality for visiting entrepreneurs, promotional facilities in the USA, and a full-time administrator to deal with advertising and contacts.

Regional Policies

Riley and Ashworth, when analysing the dispersal of new employment in Luxemburg comment on 'the absence of a regional problem in the country"[141]. However, Yuill et al., speak of 'regional disequilibria' between the primarily agricultural northern and eastern regions, and the industrialised south and west[142]. Industrial incentives were first introduced under the General Frame Law of 1962, and expanded in 1967 and 1973[143]. The two main concessions involved are a capital grant and tax relief. There are no spatial restrictions on their application, but 'aided projects must both comply with the requirements of general country planning, and be conducive to the expansion and improvement of the economic structure of the Grand Duchy, or to the better territorial distribution of economic activities'[144]. The maximum capital grant amounts to 15% of eligible investment, but this averages out much lower in practice, whilst the tax concession is generally used as a topping-up measure. Yuill et al state in their study of regional incentives in Western Europe that 'the key feature of the Luxembourg incentives is their low value'[145], and they conclude that 'the overall impression one has of the Luxembourg package is that it reflects a lack of enthusiasm for incentive policy and that incentives are offered primarily because they are available in neighbouring countries'[146]. This is probably a reflection of the relative prosperity of the Luxembourg economy during the period when other European countries were evolving regional strategies. It may, in the light of continuing economic recession, prove necessary for the Luxembourg government to provide stronger financial encouragement for both domestic and foreign investors.

Luxembourg - Industry and Finance

Over the course of the last 20 years, banking facilities in Luxembourg have expanded, reflecting the liberal, low-tax regime predominating in the country. There is for example, no central bank as such, the banks being regulated by a Banking Commissioner assisted, since 1971 by a 'Conseil de Contrôle des Banques', representing the banking community[147]. Certain of the functions that would normally be associated with a central bank (such as clearing) are carried out by the Caisse d'Epargne de l'Etat (CEE)[148]. It also acts as a lender of medium and long-term financing to the private and public sector.

Unlike in Belgium and in France, Luxembourg banks are incorporated as 'banques mixtes'[149]. No distinction is made between clearing banks, merchant banks and investment banks. However, even in Luxembourg, the State has found it necessary to form a public company to provide capital for industry, in this case, the Société Nationale de Crédit et d'Investissement (SNCI), which was established in 1977 with the aims of modifying the country's economic structure, preserving full employment, and reducing the extent to which the Luxembourg economy is dependent on foreign investment[150]. To further these aims, the SNCI can provide medium and long-term loans, and take equity in any given company, with that company's consent. Equity participations must not exceed 49% of a company's capital, or 10% of the SNCI's funds, without government approval[151]. The SNCI tries to split financial responsibility for each investment project equally between the applicant company, the banks and the state. The Board of the SNCI has 9 members, three each from employers' and trade union organisations, and three representatives of government ministries, namely Finance, Economic Affairs, and Foreign Trade and Foreign Affairs. Legislation expected in 1985 will give the SNCI greater powers to regionalise the government's industrial diversification policy by offering capital incentives of up to 25% of capital costs on new investment projects in certain designated areas[152].

ARBED: Division Anti-Crise: Industries Nouvelles

Luxembourg's major steel producing concern and largest employer, the multinational Arbed corporation, has, as well as the government, taken a serious interest in the problems of unemployment. In 1977, a tripartite committee was set up to deal with these problems, upon which Arbed was represented[153]. The Committee was responsible for further legislation in December 1977, giving the government powers to stimulate growth and employment. For its part, Arbed established a Division Anti-Crise (Anti-Crisis Division) to deal with the needs of redundant steelworkers, a development which has similarities with the creation of BSC (Industry) Ltd in the UK. In April 1978 Arbed set up the New Industries Department as an extension of the activities of the Anti-Crisis Division, with the aim of attracting foreign investment to Luxembourg, and assisting the establishment of such projects in the Grand Duchy.

Arbed's New Industries Department is accountable only to the company's internal management and has no formal connection with the government, although its relationship with government departments has been described as 'a very close one'. Its budget is allocated by Arbed, and it can take advantage of the expertise of Arbed staff in other departments. However, it has only three full-time staff. Though a wholly private concern, the New Industries Department carries out many of the function of the Dutch and Belgian State-owned agencies, though on a much smaller scale. It can provide information for foreign investors, can put them into contact with financial institutions, government departments and the like, and publicises the attractions of Luxembourg abroad, particularly in America. It offers management advice and is even able to lend or transfer permanently members of its own managerial staff.

The supportive services which the New Industries Department can offer, taking advantage of the facilities that it has at disposal 'are considerable... this is where the main strength of the department lies'[154]. The Department can help with planning, the supervision of site preparation, recruitment and training of staff, use of the Arbed sales network for related products and of its quality control facilities, and can carry out research for companies. At present, the Department can also provide infrastructure such as factories, land and housing, all of which have become surplus to company requirements in recent years. These facilities, are not, however, particularly well-sited, and as Arbed's stock is run down, this function will in all likelihood be absorbed by the government, which is already building industrial estates.

The New Industries Department's initial activities concerned the promotion of Luxembourg as a location for industrial investment, but, since the rejuvenation of the Board of Economic Development, the emphasis has switched to servicing the investor 'on the ground' in Luxembourg. There is no regional aspect to the New Industries Department's remit, which is to promote Luxembourg as a location for foreign investment, to evolve strategies for securing that investment, and to provide practical help to investors wishing to establish projects in Luxembourg[155].

CHAPTER FOUR - REFERENCES

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CHAPTER FIVE

Regional Development Agencies - Powers, Functions and Aims

Having described the agencies, their structure and experience, in some detail, it is now necessary to attempt to draw out the similarities and dissimilarities which exist between agencies operating both in different regions of the same country, and in different countries. The framework of this study will consist of an analysis of a series of distinct areas, each covering a particularly key part of the agencies nature, structure or activity. In the following section, four central aspects of the nature of each respective agency are discussed, their powers, functions, objectives and resources.

i) Powers

In studying the powers of the agencies, it is hoped that, as a result, a greater understanding might be gathered of the potential impact that regional development agencies might be expected to have on problems of economic development in the regions which they serve, and that it might be possible to trace whether such powers as they do enjoy have been reduced, expanded or remained the same over time. In this context, one of the most significant variables affecting the regional development agencies in this study is the extent to which individual agencies are under public or private control. This is because powers, in the form that they are understood in the present study (see below), are more amenable to measurement when transmitted to a statutorily - constituted agency from a higher governmental authority, than when they are embodied in a private organisation. In the United Kingdom, such powers are laid down in the Acts of Parliament under the terms of which the agencies were established. However, in examining the powers of an independent limited liability company, such as those agencies operating in Holland, conclusions have to be more generalised, and relate to the company's Articles of Incorporation and to the powers prescribed within the limits of Dutch commercial law. This is not to say that both public and private agencies do not wield what sociologists call 'effective' power[1], which may bear little relation to statutorily-ordained authority. For example, the first chairman of the HIDB, Prof. Robert Grieve, was widely credited with persuading the then Labour government in 1966 to locate a nuclear power station at Dounreay on the north coast of Scotland[2]. However, this type of power is not readily measured, and will not be considered at this present stage. It is with more formal concepts of power, bound up with issues of autonomy, and independence from central or regional government, that this study will deal, in a subsequent section.

As stated above, in the case of UK agencies, powers are derived from statute, either parliamentary Acts, or, in the case of the Northern Ireland agencies, Orders-in-Council. Similarly, the Belgian agencies derive their powers from a statute promulgated in 1970. The Dutch agencies, however, though established on the initiative of central government, do not possess statutory authority, but function as independent limited liability companies. The British and Belgian agencies therefore fall into that category of bodies, which has come to be referred to as quasi-autonomous non-governmental organisations, or quangos, 'appointed public agencies established by statute or ministerial decision to perform executive tasks in place of central departments or elected local authorities: the non-departmental appointed public agency'[3].

a) Financial Assistance

The right to acquire shares in companies and to offer loans, is a power which was common to the majority of agencies at their inception. Of the five UK agencies, only the DBRW (MWD) does not possess the right to invest directly; it acts as an agent for the WDA. The seven Belgian agencies were all empowered to make equity investments, but this power was subsequently transferred to regional investment companies, established in each of the three major linguistic communities. In the Netherlands, only the NOM and LIOF initially undertook equity investment, but not having been constituted under any statutory authority, the other agencies were free to assume this role at a later stage.

The power to give aid, in the form of financial grants to companies, individuals, and organisations is not as widespread. In the UK, it is most developed in the case of the IDB, which can offer selective financial assistance to offset the costs of capital investment, interest charges on debts, wages, rent and research and development. These powers are the result of a transfer to the IDB of responsibilities previously directly administered by government departments (this assistance is dealt with in other regions of the United Kingdom by the Department of Trade and Industry), and reflect the special constitution of the IDB as an executive arm of the

Department of Economic Development. It is therefore, more closely linked to central government administration than other UK agencies. Similar grants are administered in the region by LEDU, the small business agency.

The HIDB is empowered to give discretionary grants and loans to projects that will contribute to the economic and social development of the region, subject to certain conditions such as the viability of the project, the amount of investment made by private sector sources in it, and the additional employment which would result from it.

Since 1982, the DBRW (MWD), has been able to offer grants to companies, setting up or expanding in the non-assisted areas within its remit. It also offers a social development grant and a public authority grant which can be utilised by statutory authorities for social or economic purposes. The Scottish Development Agency may make grants with the approval of the Secretary of State, to special projects, and the Small Business Division can also offer small grants to craftsmen. The Welsh Development Agency does not in practice make grants to individual projects or companies, though like the SDA, it has statutory authority to do so. In all UK cases, the dispensing of grants is subject to strict central government regulation.

In the Benelux countries there are no agencies that offer grant assistance. Agencies in Belgium have no statutory authority to dispense grants, and whilst there is no theoretical impediment to those in the Netherlands and Luxembourg so doing, in practice they have not done so.

b) Land

Powers which relate to the acquisition of land represent another area in which differences exist between UK and continental European agencies. In the Benelux countries, the SDRB alone has the statutory power to acquire land, and this either by agreement or by compulsory purchase.

In other parts of Belgium, the provision of industrial land is the responsibility of 'intercommunales de développement économique', groups of communes, provision for the establishment of which was contained in the Regional Expansion Law of 18 July 1958. However, in Brussels, the 19 communes have been unable, for political and economic reasons, to operate in this manner. Thus, in matters relating to housing and construction, the SDRB was given the power to acquire, give away, exchange or let land and buildings, with the objective of improving the economic, urban and social environment, within the framework of the development programmes of the regional plan, and of regional policy in general[4]. This was supported by the power to undertake compulsory purchase, which was included in the planning and economic decentralisation law of 15 July 1970, which was in turn derived from a law of 26 July 1962, relating to compulsory purchase 'in the cause of the public good'[5]. The SDRB also has the power of compulsory purchase in relation to land adjacent to existing companies, onto which that company wishes to expand.

Both the Dutch agencies and the New Industries Department of ARBED are technically able to acquire land in the same manner as other commercial companies operating in their countries, that is by agreement. However, Dutch agencies have not, in practice, acted as providers of industrial sites, a role which is carried out in the Netherlands by the provincial authorities, whereas the only activity of the New Industries Department, in this field, has been to lease land which is part of the steel company's redundant property stock.

A perusal of the relevant statutes relating to British agencies would appear to indicate that they are better equipped to operate in this area than are the Benelux agencies. The WDA, for example, is empowered in relation to derelict land in need of renewal or improvement, 'after consultation with such local authorities and other bodies as appear to the Agency to have an interest, themselves to acquire the relevant land by agreement or compulsorily'[6]. However, both this, and its general power to acquire land either by agreement or compulsory purchase, is governed by the provisions of the 1946 Acquisition of Land (Authorisation Procedure) Act, which was introduced to allow local authorities to acquire small plots of land for specified purposes. The powers of the SDA, HIDB and DBRW (MWD) are identical in this respect, and their weakness has been revealed by the HIDB in their unsuccessful efforts to tackle the problem of the misuse and underuse of private land in the region (see section above on HIDB, history, land development). As touched on above, the powers of the WDA and the SDA in relation to the improvement of the environment and the clearance of derelict land derive from responsibilities which they inherited from units within the Welsh and Scottish Offices.

The UK agencies also have powers to build, which are not confined to land which they own themselves. The Scottish and Welsh Development Agencies took over the responsibilities of the Industrial Estates Corporations in their respective areas, whilst in Northern Ireland, the IDB acquired the responsibility from the old Department of Commerce; previous industrial development bodies, such as the NIFC and NIDA, had not had this power. The contrast with the Benelux agencies in this respect is even more stark than in relation to land, for though it has been shown above that the SDRB exercises considerable power in relation to the provision of industrial land in Brussels, it does not normally take part in the construction of industrial premises. However, it does have the power to involve itself in such activity, and in recent years has financed the development of business centres and communal factory units. Other Belgian agencies do not have the authority to build factories. In Flanders, a recent scheme to construct a number of business centres, to be used by start-up ventures, has necessitated the creation of a separate company to undertake the work[7].

Apart from these specific powers, the British agencies, the SDA, WDA, DBRW, HIDB and the NEB have 'catch-all' or necessary and proper clauses, as Henderson terms them[8], giving them a general power to act in pursuit of their objectives and functions, such as clause 2(3) of the SDA Act which states that 'the agency may do anything whether in Scotland or elsewhere which is calculated to facilitate the discharge of their functions, or is incidental or conducive to their discharge'[9]. However, as Henderson has pointed out, though such clauses limit 'the risk that any activity may be ultra vires'[10], in the specific case of the HIDB, the power of its 'necessary and proper' clause was not considered sufficient to justify the taking of equity shareholdings by the Board[11]. This particular case is also significant in that it resulted in a strengthening of the Board's powers by legislation subsequent to the passing of the original founding statute. It was discovered, soon after the establishment of the Board in 1965 that its founding Act had not invested it with adequate powers to acquire equities. As a result, an amending Act was passed in 1968, indicating that the relevant clause of the original Act included the power to form or promote a company, and to subscribe to, acquire, hold and dispose of any stocks and shares. As with other agencies that followed it into existence in the UK, it should be noted that the Board was not given the power to make compulsory purchase of shares, the directors of the invested companies being required to consent to any such acquisition.

In a later case, the DBRW (MWD) was empowered in 1982 by the Secretary of State for Wales to offer discretionary grants to manufacturing and service industry projects arising both inside and outside Mid Wales. Previously, the Board had had power to dispense grants only to public authorities and other statutory bodies for social and economic purposes. This new power was introduced in order to compensate the Board for the government's removal of Assisted Area status from certain parts of Mid Wales, and could be utilised only in those areas.

There have also been instances of the powers of agencies being reduced by statute. For example, the 1980 Industry Act, introduced by the

Conservative administration elected in the previous year, as well as reducing the ceilings on the borrowings of the NEB, SDA and WDA which had been set by the previous Labour government, removed the powers of the SDA and WDA to furnish technical assistance in countries outside the UK, and to offer selective financial assistance[12]. Previously, the Secretary of State could direct the agency to exercise, on his or her behalf, powers to offer selective financial assistance under Section 7 of the 1972 Industry Act. However, these powers had not, in practice, been exercised by either agency; the most important changes in their mode of operation were carried out, not through legislation, but by financial constraint and the issuing of guidelines by the Secretary of State which regulated the agencies' activities in areas such as equity investment and factory construction. Equally, in Belgium, significant alteration in the role of the agencies took place without recourse to legislation. Such alterations have generally resulted in a narrowing of the agencies' operational scope, such as the change, by which the regional investment companies took over the agencies' investment functions; more recently, the Flemish GOM's relinquished their separate promotional campaigns, and agreed to carry out the attraction of inward investment through a single investment board, upon which they are individually represented, FIOC. (Flanders Investment Opportunity Council)[13].

Having been unable to discern any common pattern in the accretion or diminution of powers available to the agencies, it is nevertheless worth regarding this aspect of their structure in an historical context. The UK agencies were originally considered to be important in that they were perceived as possessing considerable powers of direct intervention in the economy, whilst at the same time maintaining a degree of autonomy from central government. Macallum refers to the HIDB as having an 'unprecedentedly wide range of powers'[14], whilst the creation of the SDA and WDA was described by one contemporary commentator as marking the beginning of a new era in regional policy[15]. With the benefit of hindsight these pronouncements can be seen to have been based on false expectations concerning the operating methods of the agencies. They were born into predominantly hostile economic and political environments, and were therefore never likely to attempt to exercise their powers to the full extent, being more concerned to temper their interventions to the mood of regional opinion-formers. Sir William Gray, former chairman of the SDA between 1975-79, interviewed for the purpose of this research, said that one of his main aims had been to make the Agency acceptable to all sections of the community, and, therefore, able to survive a change of government[16].

Nevertheless, whilst arguments will be presented below concerning their accountability and level of independence from government, the agencies have continued to disburse considerable sums of government money to industry in the regions, and to intervene in the market, whether by means of investment, factory construction or land development, without overt government interference in their day-to-day activities. The vague phrasing of their enabling statutes left their mode of operation in the hands of Board members and senior staff of the agencies themselves, or of the Ministers and civil servants of the overseeing departments. An early instance of this decision-making process in action, the decision of the WDA not to pursue the drawing-up of an economic plan for Wales, has already been noted (see above, Chapter Three). This would also help to explain the seeming paradox, one of the intentions of this study it was to investigate, namely the transformation of the agencies in political terms from potential instruments for the public direction of industry in the regions, to ready tools for the opening-up of this same industry to the free play of market forces, without the government having to resort to anything but the most minor adjustment in their founding legislation. Similarly, an incoming Labour government could be expected to encourage the existing agencies to pursue a more interventionist public-ownership oriented strategy, without having to alter significantly the legislation which already stands.

The position in the Benelux countries is somewhat different. As outlined above, only the Belgian agencies derive their powers from statute; the other bodies, whilst maintaining links of varying strength with government, remain legally independent from it. Nevertheless, de Wit and Walker have observed a similar phenomenon to that described above, in relation to British agencies, affecting the NOM. Pointing out that the adverse economic circumstances into which it was thrust in 1974 were bound to influence its operations to some degree, they argue that 'in its initial stages, it was essential that the NOM acted both energetically and cautiously ... caution was ... necessary because of the absence of any precedent for the NOM's activities'[17]. They go on to describe the NOM's field of activity and conclude that its remit is 'very general and that the NOM's management has substantial latitude in its interpretation of the remit'[18]. Similarly, Yuill and Allen, writing on regional incentives in Belgium, remark of 'regional development companies' that 'their status has been the subject of intense debate, and in keeping with this, their activity has been modest..'[19]

In the case of the UK agencies, the powers awarded to them by government, were not in themselves new. The antecedents of UK regional development agencies created during the last twenty years have been already covered in Chapter One. However, it is worth noting again that the powers granted to the agencies to stimulate economic development in the regions had been previously utilised in the field of regional development. For example, the power to make discretionary grants and loans was reflected in the earliest manifestations of government regional policy, the Special Areas and Special Areas (Amendment) Acts of 1934 and 1937[20]. These Acts gave powers to the Commissioners, one for England and Wales, and one for Scotland, to 'initiate measures for the economic development and social improvement of the distressed areas'[21]. The 1937 Act established a Special Areas Loan Advisory Committee, which advised the Treasury on giving loans to large undertakings in the Special Areas, and complemented the Special Areas Reconstruction Association, which had been set up in the previous year by the Bank of England to provide loan capital for small businesses in these areas. In 1945, government in conjunction with the clearing banks, established the Industrial and Commercial Finance Corporation (ICFC) and Finance Capital for Industry (FCI) to supply capital to redevelop British industry, the former with a particular regional bias. In the same year, under the Distribution of Industry Act, responsibility for the dispensing of grants and loans was concentrated in the Treasury, which was to be advised by a new

Development Areas Treasury Advisory Committee. Other powers relating to regional industrial development were conferred by this Act upon the Board of Trade, which was to take over the role of the Special Areas Commissioners. They included the power to build factories in Development Areas (another new term for the Special, formerly Distressed, Areas), to provide for basic public services, to reclaim derelict land, and to make loans to the industrial estate companies, which were operating as non-profit-making organisations in the Development Areas[22]. The pre-war Commissioners had been responsible for the construction of trading estates (such as the one at Treforest upon which the WDA established its original headquarters). The development of industrial land and factory-building, functions which play an important role in the activities of the regional development agencies, were regularised under the authority of three Industrial Estates Management Corporations for England, Scotland and Wales, through the Local Employment Act 1962[23]. In Scotland and Wales, these bodies continued to operate until the creation of the Scottish and Welsh Development Agencies in 1975, whilst the English body remains active as the English Industrial Estates Corporation.

Powers relating to environmental improvement and land reclamation were previously exercised directly through units within government departments such as the Scottish and Welsh Offices. As pointed out above, the power of compulsory purchase was derived from an Act of 1946 relating to the powers of local authorities, and its unsuitability to the nature of the agencies' tasks has been reflected in the fact that they have never employed it. Greater powers, in respect of land acquisition, were granted to the New Town Development

Corporations under the New Towns Act of 1965[24], and to the Rural Development Boards under the Agriculture Act of 1967[25]. It can, therefore, be ventured that the creation of regional development agencies in the UK did not entail the bestowal upon them of powers any greater than those which had previously been employed by government in this field. That which is significant is that these powers had never before been concentrated in appointed agencies, operating outside the normal departmental structure of government.

Tracing historical precedents for the powers vested in the Benelux agencies is not as profitable a form of analysis as it is in relation to UK agencies, because, as has already been demonstrated, the powers of the Benelux agencies are not as extensive as those of their UK counterparts. Similarly, much of the relevant background has been covered in the introductory chapter. However, the available information does suggest that, as with the UK, the novelty of their creation lay not in the nature of their powers, but in their concentration in a regional, quasi-governmental authority. The spatial nature of the agencies, their regional coverage, is particularly important in the context of the Benelux countries as they have, until recently, operated highly centralised systems of government. In Belgium, as we have seen, regional development agencies were introduced in 1970 as one of the first stages of economic decentralisation, which itself made up part of the process known as the 'Reform of the State'.

Fitzmaurice has commented that 'until the Reform of the State, Belgium was an extremely centralised state in that even the most minor acts and decisions of the Communes and provinces were almost all subject to annulment by the central government....[26]' Likewise, both the Netherlands and Luxembourg operated highly centralised regional incentive systems, which reflected the unitary nature of their governmental structures. Nevertheless, there has been activity in these countries in the field of regional development prior to the establishment of the agencies. In Belgium, for example, the immediate post-war years saw the formation of the Conseil Economique Wallon and the Economische Raad voor Vlaanderen as a result of local initiatives but without funds or powers[27]. The first 'intercommunales', or agglomerations of communes which join together to provide common services, were formed under legislation of 1922[28]. However, in 1959, regional policy legislation made provision for the creation of 'intercommunales' dealing specifically with regional economic development (sociétés intercommunales de développement économique), and empowered to attract investment to their areas, through the acquisition and development of industrial sites and factories. At a national level, the Belgian government established the Société Nationale d'Investissement in 1962 with power to make equity and loan investment in companies which could not obtain finance from other sources[29], but its role as a state holding company and initiator of regional projects was not developed until the mid 1970's.

In the Netherlands, as early as 1934, the economic problems of the regions had been recognised by the establishment of the private Development Company for Zuid-Limburg, which gave loans and other forms of credit to local companies[30]. Nationally, a National Investment Bank was created after the Second World War to provide loans, credit and guarantees to companies partly on its own account, partly guaranteed, by the State, and partly at the request of the State. In the Northern Netherlands, the Industrialisatie Bureau Noorden des Lands (IBN) was established in the late 1960's with power to promote the area as a location for inward investment, and to advise existing business in the area.

In Luxembourg, measures to promote regional development were not a concern of government prior to the recession of the 1970's, and this was reflected in the absence of organisations with powers toward this end. It was not until 1977 that the government established the Société Nationale de Crédit et d'Investissement (SNCI) to provide equity and loan investment to private industry[31].

The countries of Belgium and the Netherlands have, therefore, a history of government intervention at the regional level designed to encourage economic development. The creation of regional development agencies has involved the granting of various powers to these regional bodies, some concerning control over investment funds and land. Such organisations do not have any direct parallel in the history of regional economic development in these two countries. However, the relationship of these organisations to their respective governments differs considerably between them.

The overall picture, therefore, which emerges at the conclusion of this section, is one of agencies operating within a novel framework of regional organisation, with a comparatively broad range of potential if vaguely - defined powers, which have tended to be employed, with considerable caution and restraint. This restraint can be attributed to three main factors: the desire, as newly-founded organisations, to gain the acceptance of economic and political interests, the control over operations exercised by central or regional government, and the limitations imposed by the shortage of both human and financial resources. In the following section, the relationship between powers and functions exercised in practice will be explored, and conclusions drawn concerning the relative breadth of functions carried out by agencies in different regions and countries.

ii) Functions

The functions performed by the regional development agencies covered in this study can be divided into a number of distinct categories, as has been done in the table below, where functions are segregated into those which concern the provision of information and advice, infrastructure, fiscal and financial aid and miscellaneous services. The table shows that it is the British agencies which appear to operate the broadest range of functions, and approximate most closely to the model of a comprehensive regional development agency. The determination of functions ultimately rests in the British agencies not with the founding statutes, which are often vaguely-worded, but with senior agency board members and staff, in conjunction with their sponsoring government department. For example, in the case of the SDA, the evolution of area projects to the point where they had absorbed an expenditure of £88m up to March 1983[32], has been achieved without specific statutory authority. The degree of influence which the sponsoring or supervisory department exercises over the activities of the agencies will be dealt with at length in a subsequent chapter. It is sufficient to note at this stage that the guidelines issued to the SDA by the Scottish Office in 1979 laid down the principal functions of the agency (industrial promotion and the attraction of inward investment, the provision, letting and the management of sites and premises for industry, and environmental improvement work) and declared that the function of industrial investment should be used as a complement to these functions[33]. The Guidelines also state that the government 'will determine in consultation with the Agency what proportion of the funds to be provided is to be used for the industrial investment functions.'[34]

Of the five main regional agencies operating in the United Kingdom, (WDA, SDA, IDB, HIDB and MWD) all carry out their own factory-building programmes; only the small business agency, LEDU, and the regional boards of the NEB do not carry out this function. Of this five, all but MWD, which in this instance, operates as an agent of the WDA, can provide equity and loan investment. The MWD, HIDB, IDB and LEDU administer and carry out grant schemes to aid industry, though only the IDB and LEDU are directly linked into the regional grant system. Both the SDA and WDA are responsible for land reclamation and environmental improvement, the SDA having taken over, on its establishment, the Derelict Land Unit of the Scottish Office, which grant-aided local authorities to carry out projects, and the WDA its counterpart in the Welsh Office. Their responsibility covers the whole of Scotland and Wales respectively, and therefore, the HIDB and MWD do not participate in this area. In Northern Ireland, land reclamation functions are still directly administered by government.

As noted above, the comparative table of functions demonstrates that the British agencies possess the widest range of functions. From a list of 24 functions, it can be seen that the SDA is involved in the provision of 18 of them, or 75% of the total, the WDA 15(62.5%), the IDB 17(70.8%), the HIDB 18(75%), and the DBRW 13(54.2%). Each of these five UK agencies carry out more functions than any of the European agencies under study. Closer scrutiny of the table reveals that the areas in which the European agencies lag so far behind their UK counterparts are those concerning infrastructural provision and the dispensing of fiscal and financial aids, more particularly the provision of land and of equity and loan investment. Interestingly, the fact that the SDRB carries out the functions of an 'intercommunale', as well as those statutorily endowed upon other regional development agencies, is reflected in that in carrying out 12 of the 24 listed functions it ranks above all the other European agencies studied, and 3 of the smaller UK agencies, COSIRA, LEDU and the regional boards of the NEB/BTG. Also ranked highly is the New Industries Department of ARBED, owing to its capacity to provide industrial land and factories from the redundant stock of the giant steel-company. However, the table may be deceptive in this respect in that the factories and houses which can be let as surplus to ARBED's requirements are old and not particularly attractive to new investors. As with land and industrial estates, their availability is limited, and with the completion of the rationalisation of the Luxembourg steel industry it may be anticipated that these functions will no longer be carried out. The Dutch agencies represented by the largest of their number, the NOM, rank very low in the light of the fact that unlike

Table 1

Functions of the regional development agencies

Function	GOM-L	SDFB	ARBED	SDRW	NOM	NEB/BTG	COSIRA	LEDU	DBRW/MWD	HIDB	IDB	WDA	SDA
Information 1	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
Brokerage 2	✓	✓	✓		✓		✓	✓	✓	✓	✓	✓	✓
Management 3			✓		✓		✓	✓	✓	✓	✓	✓	✓
Publicity 4	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
Advocacy 5	✓								✓	✓			
Support services 6		✓	✓		✓		✓	✓		✓	✓	✓	✓
Research 7	✓	✓		✓	✓					✓		✓	✓
Land provision 8		✓	✓				✓		✓	✓	✓	✓	✓
Factory provision 9		✓	✓				✓		✓	✓	✓	✓	✓
Estate provision 10		✓	✓								✓	✓	✓
Infrastructure 11		✓	✓	✓					✓				
Environmental 12		✓										✓	✓
Grant aid 13								✓	✓	✓	✓		✓
Interest subsidies 14								✓		✓	✓		
Loan capital 15				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Equity capital 16		✓			✓	✓				✓	✓	✓	✓
Venture capital 17					✓	✓		✓		✓	✓	✓	✓
Guarantees 18											✓	✓	✓
Training aids 19							✓		✓	✓			✓
Fiscal subsidies 20											✓		
Labour subsidies 21							✓	✓			✓		
Social grants 22							✓		✓	✓			
Marketing aid 23	✓		✓					✓	✓	✓	✓	✓	✓
Planning role 24	✓	✓		✓									
% of functions carried out	29.2	50.0	41.6	25.0	37.5	12.5	45.8	45.8	54.2	70.8	70.8	62.5	70.3

Source: Information provided by agencies
1-7: Information and advice functions
8-12: Infrastructural provision
13-22: Fiscal and financial aids

their Belgian counterparts they provide equity and loan capital. This may reflect their more commercial mode of operation, which means that they do not involve themselves in areas such as planning and the provision of social infrastructure.

UK agencies, in the main, have statutory functions set out in their founding legislation. Both the SDA and WDA each have 9 functions, which are discussed above in the descriptive sections. Similarly the DBRW (MWD) was given, under the terms of the Development of Rural Wales Act 1976, five specific duties relating to an overall general function. In Belgium, the agencies were entrusted with four main functions under the provisions of the 1970 law of economic planning and decentralisation, these were, the preparation of studies to help formulate and promote economic development, the preparation of an inventory of their social and economic role in respect of the various social and economic activities of the region, with a view to executing the five-yearly regional plan, and the provision of financial aid to industrial projects. In the Netherlands, the NOM, according to its articles of incorporation, is entrusted with four duties, the stimulation of new and existing enterprise, if necessary through equity participation, the stimulation of interest in the area as an industrial location, the provision of information and advice to potential investors, and the development of initiatives which support economic activities in the area.

As has been shown to be the case in relation to the statutory powers of the agencies, their functions, as documented either in statute, or with regard to privately-constituted companies, in founding articles, have not been altered greatly during the period of their existence. The Belgian agencies no longer carry out their investment function, nor do the Flemish GOM's engage in the attraction of inward investment, but these changes have taken place without recourse to alteration of the functional responsibilities laid down in their founding statutes. In the United Kingdom, the newly-elected Conservative government made minor alterations to the statutory functions of the NEB, SDA and WDA which were embodied in the 1980 Industry Act[35]. In all three cases these included the deletion of their duty to promote industrial democracy in organisations under their control, and the inclusion of a new duty to promote the private ownership of interests in industrial undertakings by the disposal of securities and property held by them or their subsidiaries. A reference to promoting the reorganisation of an industry or undertaking of an industry was also deleted, as was the NEB's function of extending public ownership into profitable areas of manufacturing industry.

These changes, in themselves, have not had a significant effect on the activities of the agencies. The clause concerning industrial democracy, for example, had never been implemented, and the deletion of a phrase permitting the agencies to promote the reorganisation of industry, whilst continuing to permit them to promote its growth, modernisation or development would appear to be of more academic than practical interest. It might, therefore be asked, what relationship do statutory functions bear to the everyday operations of the agencies? Examples have been given above to show that certain of the agencies activities have developed outside the intention of their original statutes, such as the creation of regional boards of the NEB. It has also been stated that decisions as to the prioritising and funding of the functions generally rest with the senior staff of the agencies, and the government departments to which they are responsible. However, it should not be assumed that these officially enunciated functions have no bearing on their decisions. The Belgian SDR/GOM's were, for example, entrusted with four primary functions under the terms of the 1970 legislation which made provision for their establishment; as noted above, economic research, the compilation of an inventory of socio-economic need, the implementation of aspects of the 5-year plan, and the provision of financial aid to industrial projects.

With the exception of the last-mentioned function, which was transferred from the agencies upon the establishment of regional investment companies in Flanders, Brussels and Wallonia, their present activities revolve, to a considerable extent, around the functions listed above, and emphasise the closeness of their relationship with government, in that two of the functions constitute acts of information-gathering on behalf of the state, and the third is concerned with the implementation of government policy, albeit one formulated on the basis of broad consultation. The agencies are, indeed, involved in activities not specifically sanctioned by these regulations, such as the provision of technical and marketing assistance for local businesses, and the pursuit of schools/industry liaison. Nevertheless, the functions which it carries out in practice, as represented in Table 1, could all be said to fall within the (admittedly broad) parameters laid down by the enabling statutes.

Similarly, the Articles of Incorporation of the NOM entrust it with four duties, the stimulation of new and existing enterprise, if necessary, through equity participation, the stimulation of interest in the area as an industrial location, the provision of information and advice to potential investors, and the development of initiatives which support economic activities in the area. The tasks are still reflected in the activities and structures of the present-day NOM, as the table above shows, though the degree of latitude in interpretation to which the last-quoted function is open may reduce the import of this observation.

As indicated above, the statutory functions of the British agencies have generally been laid down with greater explicitness than the statutory powers earlier discussed. Following the amendments introduced by the 1980 Industry Act, the WDA's founding statute instructed it to carry out a list of functions which included the promotion of Wales as a location for industrial development, the provision of finance for industrial undertakings, the establishment and/or carrying on of industrial undertakings on its own initiative, the provision and management of industrial sites and premises, the reclamation of land, and the redevelopment of the environment, and the promotion of private ownership of its holdings. Remembering that the bulk of WDA expenditure is annually disbursed on factory construction, equity and loan investment, land reclamation and environmental improvement, and industrial promotion, then it would be fair to conclude that the work of the WDA remains intimately related to the functions ordained for it in the Welsh Development Agency Act of 1975.

The pattern that has thus far emerged, therefore, is one of regional development agencies operating cautiously, with somewhat ill-defined powers, carrying out tasks which have been, in the main, prescribed by legislation. To run the risk of over-simplification it might be said that the agencies were told what to do, though not how they were going to do it, or what they were doing it for, for not only were their powers vaguely-defined so also were their aims. These aims, or statutory purposes, are the subject of analysis in the next section of this chapter.

iii) Aims

The aims of regional development agencies tend to appear in statutory form in the most general terms. The DBRW (MWD), for example, was established under the terms of the 1976 Development of Rural Wales Act 'for the purpose of promoting the economic and social well-being of the people in the area of Wales for which it is responsible under this Act'[36]. The purpose of the NOM is similarly expressed, in its Articles of Incorporation, as being 'to improve the social and economic structure of the Northern Netherlands and to improve employment opportunities'[37]. The Scottish and Welsh Development Agencies' statutory aims are more detailed, if not more immediately discernible in intent, they being 'the furtherance' of the economic development of their respective regions, 'the promotion of industrial efficiency and international competitiveness, the provision, maintenance and safeguarding of employment, and the improvement of the environment'[38]. The difficulties that such aims present to the economic or political analyst are not merely that their import is unclear, (there would, for example, be many differing views as to what might constitute and 'improvement' in the social and economic structure of a given area as there would be if one attempted to reach a widely-accepted definition of 'industrial efficiency') but that as objectives they are not measurable against any short or medium-term gauge of performance. Of the agencies under study, only the IDB and LEDU have set for themselves specific targets concerning job promotion. In the case of the IDB these job targets were first included in the Board's 'short-term strategy for industrial development'[39], published in March 1983, which also contained details of the IDB's 'mission' to play a leading role in the industrial development of Northern Ireland, to promote and aid the maintenance of viable businesses, to secure long-term jobs, to encourage the expansion and competitiveness of the existing industrial base, to bring new enterprise and investment to Northern Ireland, and to improve the image of the Province as an industrial location. The IDB's overall corporate objective; as stated in the Medium-Term Strategy published in May 1985 is 'to maximise continuing employment opportunities in manufacturing and tradeable services'[40].

The HIDB, in its aims, reflects the duality of government regional policy, prevalent at its inception, for it combines, in the Highlands and Islands Development (Scotland) Act 1965 'the purpose of assisting the people of the Highlands and Islands to improve their economic and social conditions' with that of 'enabling the Highlands and Islands to play a more effective part in the economic and social development of the nation'[41]. This twin aim was born of the view that government regional policy was not merely socially justified, in that it aimed to raise the economic standards of depressed areas of the country to levels more comparable with its more prosperous part, but that the exploitation of the natural resources and utilisation of the pool of unemployed labour that these depressed regions contained would serve to increase Gross National Product and relieve pressure on the 'overheated' labour markets of the Midlands and the South-East of England. The Board, was, after it had commenced operations, to make specific commitments concerning the maintenance of the population in what it termed ' the true crofting areas'[42], but no such specific objectives were embodied in its statutes, and the majority of agencies have similarly been most reluctant to set for themselves objectives which can be subjected to empirical measurement.

It should, at this point, be noted that the SDA and WDA both have year-on-year targets for financial return set for them by government on their factory-building and investment functions, but these performance criteria are of a different nature to the overall purposes studied here, and so will be discussed in a subsequent chapter.

In the case of the UK agencies, statutory purposes are intended to describe the ends to which the powers ascribed to the agencies may be put, and are likely therefore to be framed in the form of generalities, so as to avoid unnecessarily constraining their activities. Such has been the pattern of legislation governing other quasi-governmental organisations in the past. If, therefore, aims and objectives are not to be expounded in detail in legislation, it is to be expected that they should be published at an early stage in the agency's operational life, in the form of a corporate strategy or policy document. However, some agencies have been slow to make public the programme to which they are working. The SDA, for example, formulated its Corporate Plan in 1979, almost four years after it had commenced operations. This Plan was followed in 1981 by a Forward Strategy, which projected a forward expenditure pattern for a three-year cycle and cited the SDA's objectives as being 'to assist in the realisation of opportunities arising from the development of Scottish entrepreneurship, to support growth sectors, to promote technology and to assist in the regeneration of local economies'[43]. The Strategy, which included generalised job targets, was approved by the Secretary of State, and published in the Agency's 1981 Annual Report.

The WDA produced a 'Statement of Policies and Programmes', in January 1977, which gave an interesting insight into the attitude of the agency to the concept of forward planning, and the setting of targets and objectives. 'Since the WDA have full responsibility for only part of the economic development activities in Wales, it is not realistic for the WDA to prepare a broad economic or industrial 'strategy' or 'plan' for Wales... For the same reasons it is not realistic for the WDA to set broad targets for themselves, such as the achievement of certain levels of employment or incomes, or the achievement of certain environmental standards in Wales. It is possible to set targets for achievement only in specific terms in relation to particular WDA programmes'[44]. Reflecting this cautious philosophy, the Agency's document makes only the most general reference to the aims it hopes to achieve, expressing the belief that its 'activities will make a significant contribution towards meeting the pressing need for new employment in Wales during the next five years'[45]. The Statement did, however, contain an estimate of the WDA's expenditure programme over a five-year period, broken down by activity. The Agency's continued reticence to issue such projections may partly be explained by the fact that these figures proved wildly inaccurate. In July 1984 the Agency published a five-year corporate plan. This gave renewed emphasis to catalytic investment in private industry and to the presentation of the previously separate WDA operations of land reclamation, investment, factory construction and business advice as a package. It also presented a strategy of different development policies for different parts of Wales, dividing the region into three areas: prime sites bordering main roads, such as the M4 coastal strip in South Wales, outer urban areas such as the South Wales valleys, and rural areas under its remit, such as the old county of Pembrokeshire[46].

In the first full year of its operations, the DBRW (MWD) published a 'Policy Consultation Document' setting out its immediate objectives; this was followed in 1979 by a 'Board Policy Statement', which received the formal approval of the Secretary of State. The Statement, which was widely regarded as an extension of the 'growth centre' strategy which had previously been pursued by the Newtown Development Corporation and Mid Wales Industrial Development Association, laid down that the Board's aim was 'to increase the population of Mid Wales a) by creating conditions (jobs, houses, quality of social life) that attract young people to remain in the area, b) by attracting persons (including expatriates) to move into the area, emphasis being put on those with skills and business aspirations.' It further identified 23 points for the concentration of growth, including 'Growth Towns', 'Special Towns' and 'Key Towns'.[47].

Interestingly, the Board's antecedent, the first British rural development agency, the HIDB, did not for many years make public its corporate strategy. Its two statutory objectives as described above were of a general nature, and as Grassie has pointed out 'no attempt was made to quantify these targets. Using them, therefore, as yardsticks by which to judge the Board's work is fraught with difficulties'[48]. However, senior Board members did not feel it appropriate to publish development plans or strategy documents, apparently for fear that this might lead to false expectations concerning the Board's ability to alter the state of the Highland economy. Thus, the development of Board strategy since 1965, and the significant changes which have occurred in it during this period, have been reflected only through statements made in Annual Reports. One such statement which was noted above, and which appeared in the Board's First Annual Report was that 'No matter what success is achieved in the Eastern or Central Highlands.... the board will be judged by its ability to hold population in the true crofting areas'[49].

However, in 1982, the Board finally conceded the validity of the points made above, and published in its 17th Annual Report a corporate strategy. 'The Board's remit to develop the area economically and socially is a very wide one, and does not in itself help to identify a plan of action. We therefore have to translate our broad objectives into priorities that are appropriate and timely'[50]. The strategy goes on to outline for the Board the following goals : 'to increase employment opportunities, to increase incomes, to retain population, especially in areas where reduced levels would put community services at risk, to increase the long-term capacity of the Highlands and Islands to develop and make a greater contribution to the national economy, and to improve social and community facilities'[51]. General aims are then presented in six separate development sectors, land, business and industry, fisheries and fish farming, tourism, transport and communications, and social and community development. However, no specific targets for expenditure or job promotion are included.

As already mentioned, the IDB published a 'Short-Term Strategy and Summary of Aims and Initiatives' in March 1983, some six months after it had commenced operations. As well as the 'mission' quoted above, the Board set itself three firm objectives, to increase job promotions from 3,500 in 1982/3 to 10,000 by 1985/6, with an immediate objective of 5,000 job promotions in 1983/4, to derive 3,000 of the 1983/4 job promotions from home industry, and 2,000 from inward investment, and, more generally, to strengthen companies so that the number requiring rescue will decline from year to year. It also set out broad aims in four distinct areas of activity, the development of home industry, the encouragement of inward investment, the improvement of Northern Ireland's image overseas, and the promotion of incentives to industry. The document was not well-received in Northern Ireland, being considered by many unimaginative and insubstantial (one interviewee remarked that the press release accompanying it had been longer than the strategy document itself). Nevertheless, it contained a commitment by the IDB 'in due course to develop and publish a more detailed and longer-term strategy'[52]. In fact, it was not for another two years, that the IDB was to release to the public a medium-term strategy, and the delay caused angry reaction from amongst other bodies, the Northern Ireland Economic Council and the Northern Ireland Committee of the Irish Congress of Trade Unions, (NIC) ICTU. The NIEC chairman, Sir Charles Carter, lamented in October 1984 that 'the IDB still has not worked out a properly developed strategy for action. I am frankly disappointed that after two years it is still impossible to get out of them anything but the most woolly statements as to what their strategy really is'[53]. Earlier, in March 1984, the Northern Ireland officer of the ICTU, Terry Carlin, had written to the then Secretary of State for Northern Ireland, James Prior, stating that the (NIC) ICTU 'shares the concern and criticism which has been voiced by others ....About the present unhappy situation in relation to the lack of progress in the formation of an effective industrial development strategy'[54]. The position of the IDB in this respect represents an amplification of the dilemma which to some extent affects all the agencies. To publish a strategy involves making decisions over priorities, and is therefore bound to arouse hostility in certain quarters; moreover, the publication of job targets and expenditure projections provide a measure by which the future performance of the agency can be judged. The staff of the IDB have been subject to criticism from the media, politicians, and interest-groups for failing to meet the job-promotion targets set out in the Short-Term Strategy. However, they have equally been criticised for being unable to produce a longer-term strategy, which, if it was to have value, would have to include some listing of sectoral and geographical priorities, and further statistical targets.

Conversely, Northern Ireland's other development agency, LEDU, which concentrates on the promotion of business enterprises employing 50 or less staff has heightened its profile and improved its public image generally as a result of its success in meeting job promotion targets. In 1981, a White Paper by the Secretary of State, entitled 'Framework for Action', gave LEDU responsibility for the promotion of small businesses throughout Northern Ireland, and set it a target of 12,000 job promotions over the five year period from 1981 to 1986. As LEDU had promoted only 11,000 jobs in the previous ten years' of its existence, this was considered an ambitious target. However, in the four years to the end of the 1984/5 financial year LEDU promoted 11,830 jobs each year, breaking the annual target that it had set itself, and falling only 170 jobs short of the Secretary of State's five-year target, with the final year of activity still to come. According to LEDU's 1984/5 Annual Report 'the formulation of this ongoing strategy with the commitment to achieving job targets has helped to create a sense of challenge among the LEDU Board, Area Panels and the staff. It has also led to a more effective use of LEDU's resources and the introduction of a number of new job-creating initiatives'[55].

Taking an overall perspective, UK agencies have, it seems, been reluctant to translate their broad-based statutory objectives, with their attendant ambiguities, into published strategies, with measurable goals. In recent years, however, corporate planning as an internal function of the agencies appears to have developed to the point where a majority of them have felt able to make a public statement of general aims. Only in Northern Ireland, has the process been carried so far as to encompass specific targets for job-promotions, with varying results for the agencies concerned. These firm commitments may be considered a symptom of the need for government to be seen to be making economic progress in a region which, on any chosen measure of social or economic health, is more deprived than any other in the UK.

The Benelux agencies do not have their aims delineated in the same manner as their UK counterparts. Their founding statutes and articles of incorporation tend to refer rather to tasks, or 'missions', which are sometimes difficult to distinguish from those responsibilities which would in relation to UK agencies be termed 'functions'. However, the picture which emerges from this study of aims or 'tasks' is, in many respects, a familiar one, of generalised goals and unquantified aims. To take the Dutch agencies, for example, 'LIOF's main task is to promote and develop, on its own initiative, all activities relevant to the industrialisation of the province of Limburg'[56], and that of its sister agency, NOM 'is to improve the social and economic structure of the North of the Netherlands, and to improve employment opportunities'[57]. These commitments more closely resemble the objectives of the UK agencies than anything that can be found in the Statues of their Belgian counterparts, which were given a number of 'charges', the primary one being the 'investigation, planning and promotion of regional economic activity'[58]. This lack of precision concerning aims is probably best exemplified in the case of the SDRB, the administrative council of which, reported in 1983 that

'that which constitutes without doubt if not a 'mission' properly speaking, but the very foundation of the Société's existence, is the contents of the first paragraph of the fourth article of the statutes which specifies that 'the Société is the sole implementing body for regional economic policy within the area of the administrative arrondissement of Bruxelles-Capitale'[59]. Unfortunately, for the analyst of the structures of such agencies, a clause of this nature cannot be classified as a statutory power, function or purpose, containing, as it does, elements of all three.

The objective of the New Industries Department, established as part of the Anti-Crisis Division of the ARBED steel company have been documented as 'the promotion of the creation of new employment opportunities, and the furtherance of diversification within the national economy'[60]. It is interesting to note that this remit makes no mention of any regional aims; indeed, the objectives would appear to be closely tied to the immediate problem of the steel company itself: the re-employment of the large numbers of ARBED workers made redundant as a result of labour-shedding programmes, and transferred onto the government's public works scheme. The public objectives of the state holding company, SNCI, do not encompass regional development either, they being 'to support investment or export operations which are in the general interest of the Grand-Duchy of Luxembourg'[61].

In the main, the Benelux agencies do not have the staff resources to develop corporate planning functions in the way that some UK agencies have done. None of them operate a strategic plan. However, this does not mean that they conduct their activity on a completely 'ad hoc' basis. The Belgian agencies, for instance, are each involved in the preparation of regional inventories which are passed on to their regional governments and transmitted into the Five-yearly regional economic plan. It is this plan which to an increasing extent, provides the framework for their activities. It is also important to point out that the establishment of clearly-defined objectives may not be as essential for the smooth running of the Benelux agencies as it may be for their UK counterparts, because agencies such as the NOM and SDRB have governing structures which allow for the discussion and determination of overall policy decisions to be taken in a forum distinct from that which carried out the day-to-day running of the agency. There is therefore, through the provision for democratic representation in these agencies, a strong policy-making impetus built into their structures, which appears to offer safeguards against the agency drifting along without organisational goals. It may be useful to note that it is those agencies where representational structures are most developed (the Belgian agencies) whose statutory objectives appear most ill-defined.

iv) Conclusions

Whilst the preceding discussion has tended to demonstrate that common trends within the agencies are not always easy to discern, certain conclusions may be drawn from a study of the agencies' powers, functions and aims. Firstly, it would appear that the UK agencies have both wider powers and functions than their equivalents in the Benelux countries, though, in common with those Benelux agencies, they have exercised their powers, and carried out their functions in a circumspect manner, reflecting the unfavourable nature of the economic, and to a degree, political environment into which they were born.

The powers with which these agencies were endowed were not necessarily new, in that many of them had previously been exercised by central government, or by other government organisations involved in the promotion of economic development, but their concentration in this particular form of regional organisation, only indirectly controlled by government, was, in all the countries under study, a novel development. The powers and objectives of the agencies, whether set down in statute or published elsewhere, were often vaguely-defined. The documenting of the functions which the agencies were to pursue was more precise, though the role of these publicly-declared functions appeared to be that of setting the parameters of the agencies' activities, as opposed to determining policy. This latter role was, in the case of the UK agencies, principally the responsibility of senior Board members and agency staff, whereas in relation to the Benelux agencies, it was more often determined through their internal representative structures. These representative structures, which are particularly well-developed in the Belgian agencies serve, together with the greater involvement of agencies in the Benelux countries, to compensate for their lack of activity in the field of corporate or strategic planning, an area in which UK agencies have, in recent years, become increasingly active.

v) Resources

The role of resources (in the sense here used being both financial and human) in determining the nature of an agency is a fundamental one. It is because the availability of such resources plays an important part in relation to the aspects of the agencies which have previously been discussed in this chapter that it is appropriate here to consider the comparative distribution of resources between agencies. A particular agency may be endowed with a variety of statutory powers, entrusted with a range of functions, and given far-reaching aims, but, without capital or staff it does not possess the means with which to carry them out. Similarly, the amount of resources that the state is prepared to release to an agency (for, as will be shown later, all the agencies in this study are either directly or indirectly funded by government) may constitute a better indicator of the type of role that the agency is expected to play than that afforded by its founding legislation. For example, when the legislation establishing the HIDB was first published, hopes and fears were expressed about its potential for bringing about 'revolutionary change' in the areas within its remit. However, when it subsequently became clear that the government would commit only a relatively small budget to the Board's charge, commentators were able to predict that the impact of its activities would be considerably less far-reaching than had been thought. The resources of the agencies, therefore, as measured by the amount of funds to which they have access annually, and by the complement of staff which they are able to employ, may serve as a significant determining factor in the make-up of their operations.

As is clearly shown in Table 2, four of the agencies stand above the rest in terms of their financial and staff resources (this calculation excludes the NEB/BTG, which spends only a small part of its budget on an explicitly regional basis), these being the SDA, WDA, IDB and HIDB. Their dominance can be expressed statistically in that they account for 86.8% of the total funds available to those agencies included in the table, and 82% of the total staff (once again excluding the NEB/BTG on the grounds that it is not possible to disaggregate figures for its regional activities from those of its main nationally-based operation). So small is the resource-base of those agencies not included in the table (four Flemish and two Dutch agencies) that their inclusion would, for example, only reduce the proportion of funds appropriated by the four largest UK agencies to an estimated 86% of the total, and the proportion of staff to an estimated 78%.

a) Financial resources

These agencies all operate within the UK, and like the other agencies in the table, receive the bulk of their funding from the state, though recently, receipts from the sale of assets, have become a significant source of income (£10 .3m for the SDA in 1983/4 [62], and £6.7m for the WDA[63]). Disagreement between agency and government over funding is not easy to discern, the negotiating procedure for departmental budgets in the public sector being closed in nature, but public discontent did arise when as a result of government cuts in public expenditure in the 1980/81 financial year, the WDA's budget was reduced by £9m[64], and again in 1983 when concern was expressed in Parliament that the HIDB would run out of funds before the end of its financial year[65]. In more general terms, there was also opposition in some quarters to the setting , through legislation, of financial limits on the total borrowings of UK agencies from government[66].

However, the impression gathered from interviews with the staff of UK agencies is that they have not felt financially constrained in their activities, and this viewpoint is summed up by Grassie in relation to the history of the HIDB up to 1982, when he states that 'the board did not suffer in general from a lack of finance; indeed it was able on occasion to secure additional resources. Like other agencies, of course, it suffered at times of restricted public spending but its common experience was to find it was in danger of not spending its total approved budget'[67]. The problem of budget shortfall appears to be a common one for UK agencies and relates to the system of resource-allocation practised by the Treasury, which will reduce the amount given to an agency in grant-in-aid for the forthcoming year by the amount left unspent in the previous year. As Grassie points out, this generally leads to a scramble for projects in the closing weeks of the financial year, and in July 1985, the Comptroller and Auditor General in his report to the SDA's 1984/85 accounts censured the Agency for making payments to housing associations amounting to nearly £5,000,000 in the final month of the financial year. The payments were made 'in advance of need' and before conditions for the payments of the grant had been met, the clear implication being that the Agency had wanted 'to expedite payments in order to minimise the balance of grant-in-aid retained'[68].

TABLE 2

Regional agencies - financial and staff resources

	Funds 1982/3(£m)	Staff as at 31/3/83
SDA	107.6	732
WDA	63.7	506[1]
IDB	71.5[2]	270
HIDB	32.4	259[3]
DBRW(MWD)	8.2	92
LEDU	8.7[4]	71[5]
NEB(BTG)	66.6	57[1]
SDRW	2.7[6]	116[6]
SDRB	6.1[6]	27[7]
GOMVB	0.5[8]	22[7]
NOM	9.6[7]	31[3]
LIOF	6.1[9]	26[3]
ARBED	0.05[10]	3[11]

1 Average for 1982/3

2 Gross expenditure figure for first seven months of operation, to 31/3/83

3 As at 31/12/83

4 Gross expenditure figure

5 As at 31/3/84

6 1981 figures

7 As at 31/12/82

8 1982 figures

9 1983 gross expenditure figures

10 Projected budget for 1980

11 1980 figures

Dutch agencies are allowed by government to borrow capital on the open commercial markets under State guarantee up to a specified limit, which is determined annually. Like the Belgian agencies they operate with resources which are far more restricted than their UK counterparts, though as has been shown above, their spending powers are not as wide-ranging. The Dutch agencies are constituted as private limited liability companies, having their own share capital. In the case of the NOM, this consists of 1,000 shares of 1,000 Dfl each, giving the agency a share capital base of approximately £250,000[69]. The LIOF has a capitalization value of 3 million Dfl, consisting of 12,000 shares worth 250 Dfl each[70]. The shares are divided into two categories, A and B, ownership of the former being confined to the Dutch state, the province of Limburg, municipal authorities within the province, and other bodies corporate. Likewise, the Belgian SDRW, though constituted under Belgian law as a private limited liability company but as a 'public body with civil character' received 9 million BF of starting capital from the five provincial authorities whose territories fall within or partly within the Wallonian region[71]. The SDRB's initial capital, subscribed by the 19 communes of Brussels, and the province of Brabant, amounted to 5.7 million BF[72], and that of the GOMVB to 10.5 million BF[73]. For their day-to-day needs it appears that the Belgian agencies rely on annual subsidies from provincial and regional authorities, the negotiation of which are carried out on an ad hoc basis in contrast to the UK agencies, whose financing is determined according to short and medium-term projections made by the agencies in consultation with central government. In this way, the UK agencies can generally predict with some degree of precision the amount of finance that will be available to them in a given year, whereas the Belgian and Dutch agencies receive finance from government authorities in proportion to actual sums spent (in effect, retrospective payment), and therefore operate in a climate of greater financial uncertainty. This topic, together with others concerning the financial arrangements which govern the operations of the agencies, will be dealt with in the following chapter.

b) Staff resources

It has been argued that as important in the carrying out of economic development work as the availability of finance, is the availability of personnel. Interviews with staff of the agencies have tended to suggest that there are areas of the agencies' work, particularly in the UK, where the main constraint on activity is not lack of finance, but inability to provide sufficient staff (for example, area projects, and 'hands-on' venture capital investments). Though limits imposed by government on the recruitment of staff are most obvious in relation to the smaller Belgian agencies, those agencies with comparatively large staff complements have also been critical of them. Moreover, the figures relating to the staff numbers of the larger UK agencies are, in a sense, misleading, because their employment forces have not been built up from scratch, and have not, consequently, been deployed according to the wishes of the agencies. When the SDA, for example, was created, it inherited between 470 and 480 staff from various pre-existing bodies such as the Scottish Industrial Estates Corporation (SIEC), the Small Industries Council for the Rural Areas of Scotland (SICRAS), and the Derelict Land Unit (DLU) of the Scottish Development

Department (SDD), each with their own statutory functions which they were to continue to carry out under the new authority of the agency. As a result of this, the SDA was considerably inhibited in using its comparatively large workforce to carry out the tasks which it considered carried the highest priority. As the Chairman of the SDA stated in evidence to the Select Committee on Scottish Affairs in 1980 'it seems a nonsense to have a situation where we are given a budget of something like £80 million to spend in the SDA, and we are not allowed to create the organisation structure which we deem as an agency board to be essential to carry out that function properly'[74]. The agency operates within a staff ceiling laid down by government, which, according to sources within the Agency, has actually been reduced over time[75]. In 1984/5 the Agency carried out a major reorganisation of its staffing structure, concentrating on the property division, which, formed around the nucleus of the SIEC, had previously accounted for almost 50% of the Agency's total staff resources. As a result, staff numbers were reduced over the course of a year from 733 to 649, a reduction of 11.5%, and the proportion of staff employed in the Property and Environment Division of the Agency from 47.3% of the total to 23.7%[76]. However, despite this reduction in staff numbers, the cost of wages and salaries increased over the period by 1.9%, which, combined with the fact that the number of employees in the agency's top salary bracket of £30-35,000 rose during the year from 1 to 5, suggests that the Agency's intention of reducing staff numbers was to enable the introduction of a performance-related system of remuneration for senior staff. Without the reduction in staff, it is to be presumed that the government would not have agreed to the salary increases which the introduction of a system of this nature entailed.

Referring once again to Grassie's account of the HIDB, he provides a useful summary of the staffing difficulties which it faced, which could equally be applied to the other UK agencies. Of the HIDB he writes 'it was subject to major controls over the only resources it had, its staff and its budget. Initially, it could not hire anyone not even the lowliest clerk, without the approval of DAFS (Department of Agriculture and Fisheries, Scotland). Through time this regulation was relaxed but even now, the board cannot appoint of its own accord, staff to its most senior ranks. In essence this meant from the beginning that Scottish Office decided not only how many staff the board should employ, but also, in terms of salary, what its quality should be'[77].

Restrictions on staffing levels within Belgian agencies are, however, even more strict. The numbers which can be employed, both in total, and on each grade, are determined by statute, and in the case of the Flemish agencies have remained unaltered since their creation. The SDRW, however, whose original staff-limit was set by a decree of 15 October 1975 at 12, had it increased to 50 under the terms of a decree passed in 1977, and subsequently to 116, under a decree of 1 July 1980[78]. The increase authorised in 1980 was to cope with the growth of work resulting from the establishment of a number of 'cellules' within the Société which were themselves created for the purpose of research, through agreements with the Wallonian regional executive. The difficulties that the SDRW has experienced with staffing can be illustrated by reference to the following example. The report of the

Société's auditor to the General Assembly on the Société's accounts has over a period of years, made comment on the fact that the Société did not have a proper system of internal audit, or of monitoring the investments in its portfolio. However, when the SDRW attempted to act on the first of these recommendations by appointing a member of staff experienced in auditing procedure, the regional executive refused to authorise the Board to offer a fixed-term contract in connection with the post. When the Société applied for authority to engage someone to take responsibility for the control of its investment portfolio, this was similarly refused by the Regional Executive. Flemish agencies have also experienced extreme difficulty in maintaining staff levels commensurate with the breadth of their activities[79]. One body, the GOM-L, has attempted to circumvent the staff ceiling by utilising staff nominally employed by the Limburg Economic Council (LEC), an advisory body established in 1951, which now shares the offices of the GOM-L[80]. The staff of the LEC operate under provincial rather than regional control, and are, therefore, not affected by the statutes which govern the personnel of the GOM-L.

Control over the number of staff employed by the Dutch agencies is exercised by the public authorities, who are responsible for the payment of wage-bills. In the case of the NOM, all operating costs (appartaatskosten) are paid by central government under the terms of a Finance and Guarantee Agreement (Financierings-en Garantiesvereenkomst). Thus, though they are constituted as private limited liability companies they tend to operate under the same constraints as agencies in both the UK and Belgium. The staff of the NOM, to take one example, whilst being increased from 15 at its inception to 31 by 1979, showed no further increase by the end of 1983[81].

vi) Summary

The chapter has set out to make a comparative analysis of regional agencies in relation to four central aspects of their constitution. It has shown that significant differences exist between the various agencies in relation to their powers, functions and resources, though in a fourth area studied, it has been established that they appear to share roughly similar aims, concerning the social and economic development of their respective regions. The chapter establishes that the UK agencies have wide-ranging powers, particularly in relation to the provision of equity and loan finance, the acquisition of land and the dispensing of grants, which many of the Benelux agencies do not share. Similarly, the UK agencies operate a breadth of functions, the diversity of which is matched by only one of the Benelux agencies, the SDRB. Four of the UK agencies are also in receipt of financial and human resources which far exceed those available to their Benelux counterparts. However, as is pointed out above, a common trend has been discerned amongst all the agencies in the study towards caution in the exercise of powers and the carrying out of functions, which, it has been suggested, can be attributed in part to the uniformly unfavourable economic and (to a lesser extent) political climate into which they were born.

It has also been argued that the powers with which these agencies were endowed were not new, many of them having previously been exercised by central government, or other governmental organisations, in promoting economic development, but that their concentration in this particular form of regional organisation, which was only indirectly controlled by government, did represent a novel development.

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CHAPTER SIX

Regional development agencies-finance, structure and control

Having discussed in the previous chapter the broad constitutional aspects of regional development agencies' character, it is necessary to consider now other factors which affect their day-to-day operation. The first of these factors, that of finance, has already been referred to briefly, in the context of the scale of financial resources available to the agencies. In this chapter, the financing of each agency will be analysed in order to ascertain the sources from which funding is derived, the methods and conditions of payment, and the relationship between agency and donor which is consequently engendered. Closely related to the provision of finance, in that one of its prime objectives is the oversight and effective control of financial expenditure, is the internal decision-making structure of the individual agency. The second section of this chapter will deal with the different types of internal structure in operation within the agencies, and will seek to ascertain where in these structures lie their main directing forces, those which exercise authority over overall policy, and over day-to-day activity. In conclusion, a wider perspective on control of the agencies, drawing on the examples of the preceding sections, will be attempted. The section will also enquire as to the existence of structures which allow scope for the views of the inhabitants of regions which the agencies serve to be expressed in relation to agency activities. Leading on from this, consideration will be given to the extent to which agencies are (centrally or regionally) directed from above (by government), from below (through the community), or are able to operate independent of outside influence.

i) Finance

As has been shown in the previous chapter, financial resources constitute an important factor in determining the composition of the agencies' operations. Agencies without access to adequate funding may, for example, be confined to an advisory rather than a pro-active role in economic development. Of equal significance, however, is the source from which finance is derived, for this may influence the manner in which the finance is used by the agency itself, and may affect its activities in areas which may, superficially, appear non-related. For example, an agency which draws revenue from the sale of factories it has erected, may be reluctant to build in areas of economic and social deprivation where an adequate market price cannot be obtained for its product.

As the descriptive passages in Chapter Two have shown, the funds of UK agencies are, in the main, drawn from central government. In the case of two of the larger agencies, the SDA and WDA, the bulk of funding takes the form of grant-in-aid, received through the budgets of their sponsoring departments, supplemented by Public Dividend Capital (which is used to finance equity investments and is negotiated directly through the Treasury) and borrowings from the National Loans Fund. Other smaller sources of finance for these agencies in recent years have included the European Coal and Steel Community (ECSC) and the European Investment Bank (EIB). Both these organisations have utilised the SDA and WDA as agents for the disbursement of loans to companies within their respective regions. However, the amounts involved have, as yet, been comparatively small (see Table 1).

The agencies' only other significant source of income is from their own capital resources. In 1984/5, for example the SDA sold off £17m worth of property and realised a capital profit of approximately £800,000 on the sale of investments in two companies[1]. In the same year, the WDA raised £11.5m from the sale of premises and land to tenants and institutional investors, and from other property transactions[2]. The increasing importance of these self-generated funds has resulted from the desire of the state to reduce the real value of its contribution to the agencies' budgets as part of its general policy of public expenditure restraint, and its consequent encouragement of the selling-off of property and investment assets. The industrial investment guidelines issued by the Scottish Office to the SDA in December 1979 state that 'in general, the Agency should seek to dispose of shares which it holds at the earliest practicable time consistent with its statutory purposes'[3]. This policy has had at times spectacular results for the agencies, as when the WDA sold its £100,000 interest in Bio-isolates plc, a Swansea-based biotechnology company, whose shares had been floated on the Unlisted Securities Market (USM), for £1.19m[4]. For these agencies, however, government funding remains the largest single source of income, as is the case with the smaller agencies, who do not possess the stock of rentable property or marketable assets which the larger agencies do.

Most UK agencies have to bargain for their allocation of central funds from the Treasury through their sponsoring departments. For example, the SDA has to draw up an overall budget for the forthcoming financial year under separate expenditure heads, which must be argued for as part of the annual budget of the Industry Department Scotland (IDS). The IDS must then justify its part of the overall Scottish Office budget, and finally the Scottish Office must bargain with the Treasury for its share of the monies allocated to the central government spending departments. As has been pointed out above, this leaves considerable scope for 'trimming' of the Agency's budget at various stages. Added to this, the government can exercise financial control of the agencies' expenditure in a number of ways. Firstly, it applies overall borrowing limits which are laid down in statute, and by which the agencies must abide. In practice, these limits have been amended upwards whenever an agency appeared likely to breach them, but they acquired at least symbolic significance when they were revised downwards in 1980 by the incoming Conservative administration. The government controls the agencies' expenditure plans both short and long-term, through the Annual Estimates, and the Public Expenditure Survey (PES) (See below). It is also clear that the sponsoring department has influence in determining expenditure between the various functions carried out by the individual agency. This can be illustrated by reference once more to the industrial investment guidelines issued by the Scottish Office to the SDA, which state that 'the Government for their part will maintain arrangements for the exercise of budgetary control and oversight of the Agency's activities and in particular will determine in consultation with the Agency, what proportion of the funds to be provided is to be used for the industrial investment functions'[5].

A useful picture of the degree of control exercised by a sponsoring department over an individual agency is provided by Grassie in an appendix to his book on the HIDB, in which is printed a copy of a letter written by the Scottish Economic Planning Department (SEPD, now IDS) to the HIDB, setting out its offer of grant-in-aid for the financial year 1981/2[6]. This shows that grant-in-aid is allocated by the department annually, according to individual budget heads. The prior approval of the sponsoring department is required for any expenditure on a new service, or for any new long-term commitments. The department requires the Board to submit monthly figures showing the previous month's expenditure, annual accumulated expenditure, and the balance of grant-in-aid outstanding, as well as a record of all new commitments made in the form of grants and loans during the previous month, and the resultant accumulated commitment. (It is required that copies of these figures be submitted in triplicate). Estimates of expenditure for the succeeding financial year beginning 1st April have to be submitted by the end of the preceding September, as should revised estimates of both the current year's expenditure, and the balance likely to be outstanding at the year-end. Grassie claims that it was to restrictions and conditions such as these that the former Conservative Secretary of State for Scotland, Michael Noble, was referring, when in a Speech on the second reading of the Highland Development (Scotland) Bill which established the Board he alleged that 'this Board has not got one tooth, but the Secretary of State for Scotland has got a most ferocious set of snappers'[17].

Table 1

Funds received by the SDA and WDA from the EIB and ECSC

	£000		£000		£000	
	1982/3		1983/4		1984/5	
	EIB	ECSC	EIB	ECSC	EIB	ECSC
SDA	250	601	-	256	-	-
WDA	303	251	150	4049	-	3924

Source: SDA, WDA Annual Reports.

Government planning of the expenditure of UK regional development agencies is a complex subject, but as mentioned above, mainly concerns two systems, the PES and the Annual Estimates. The PES is designed to plan public expenditure for several years ahead, and makes comparison with levels of expenditure in previous years at constant prices. The Annual Estimates govern the amount the Agency can actually spend in cash terms in the forthcoming financial year, and consist of a net total, which sets out the maximum capital which the Agency will receive directly from the government in the year, and the gross total which represents the maximum that the agency may spend in that year (taking into account its own receipts from rental of factories, income on investment, and other sources). The totals are subdivided into expenditure heads, and can be increased or reduced during the year only with government authorisation. The Annual Estimates are each year subject to parliamentary approval.

In Northern Ireland, the method of funding the two regional development agencies differs from the procedure described above. The budgets of both the IDB and LEDU are determined by the Secretary of State for Northern Ireland, according to the priority given at the time within the department to the industrial development function[8].

Other UK regional bodies

The NEB's overall activities were financed by a combination of Public Dividend Capital and borrowings from the National Loans Fund, the latter being subject to interest payments. However, within the NEB's budget, which was dominated by expenditure on ailing multi-plant companies such as Rolls-Royce and British Leyland (88.7% of total NEB expenditure up to 31st December 1979)[9], it is not possible to calculate precisely what proportion was allocated to regional investment. The regional boards established in 1977 in the North and North-West regions were given an initial capital of £0.5m each. It has been estimated that they spent only £8m in their first six years of operation[10], but in recent years, exact figures became more difficult to calculate as the Board pursued a policy of establishing investment funds in various parts of the country in conjunction with private financial institutions. (For example, funds have been established in Devon and Cornwall, in conjunction with Dartington and Co, and on Merseyside, in conjunction with Collinson Grant).

Regional enterprise boards have, in the main, derived finance from the councils which established them. These grants have been made under Section 137 of the Local Government Act 1972 which enables local authorities to spend the product of a 2p in the pound rate 'in the interests of their area or any part of it or all or some its members'[11]. This money is then generally spent by the Board in accordance with the economic development and employment policies of their sponsoring council. In the case of the Greater London Enterprise Board (GLEB), an annual funding agreement is reached with the Greater London Council (GLC), which specifies the broad areas of spending and includes the policy framework and priorities for GLEB's work[12]. However, the Boards have faced twin difficulties threatening their financial security during the short period of their operational lives. The first is that the 2p rate alone cannot provide sufficient long-term finance for the Boards to implement the kind of plans that would have any more than a marginal effect on the high unemployment regions in which they work. The second is that the government's legislation abolishing the metropolitan county councils in 1986 would wipe out this sole source of finance. (The Boards themselves, as independent limited liability companies, are not to be abolished under the terms of the legislation). These problems have forced the Boards and their sponsoring councils to search for alternative sources of finance. The West Midlands Enterprise Board, for example, has established a development capital fund to which not only the County Council, but London Transport and the superannuation funds of five London boroughs have subscribed. In 1985, GLEB began to experience serious funding difficulties after control over GLC expenditure had been taken over by the Department of the Environment, which refused to disburse the outstanding £20m of its 1985/86 budget. GLEB intends to arrange Section 137 assistance from the 32 London boroughs to be drawn upon after the winding-up of the GLC, but it appears unlikely that Conservative-controlled boroughs will be willing to sanction support for an organisation whose work tends to be concentrated upon the economically most deprived parts of London, parts which are generally controlled by non-Conservative administrations.

Benelux agencies

The financing of Belgian regional development agencies appear to be similarly elaborate. Hindley and Walker, writing in 1982 of the SDRW which has since become defunct, cite six sources of funds for its activities, its own capital resources, a labour subsidy from the state, project-related subsidies, direct loans from the state, funds for 'cellules', and parallel credits[13]. To illustrate the diversity of these funding arrangements, each will now be briefly considered.

i) Own capital. As noted in the previous chapter, Belgian regional development agencies each received starting capital drawn from various public sources, primarily the provincial authorities.

ii) Labour subsidy. Each agency receives a subsidy from the state (since the constitutional changes of 1980, this subsidy has, in the case of the Flemish agencies, been dispensed by the Flemish Regional Executive) to cover the cost of the staff numbers employed under the terms of legislation governing the agencies.

iii) Project-related subsidies. These 'assigned projects', as they became known, were investments which the agencies were instructed by central government to make, the costs of which it also paid. When they commenced their operations, the agencies were free to make investments at their own discretion, though application for funds to support such investments had to be made to the Ministry of Finance. Central government set an upper limit each year for the total level of funding available to the agencies for this purpose. Within this overall total, a subtotal was determined for each region, proportionate to its surface area, and the income tax revenue received from its population. When the constitutional changes of 1980 came into force, responsibility for the designation of 'missions déléguées' was transferred to the Regional Executives, but shortly after this, the agencies ceded their role in the provision of equity and loan investment to the newly-established regional investment companies.

iv) Direct loans. In exceptional circumstances, the agencies have been able to contract loans directly from the State, to cope with large-scale commitments which overstretch their normal resources. In the case of the SDRW these loans were made available on an interest-free basis, coupled with a ten-year repayment 'holiday'.

v) Funds for 'cellules'. An important part of the SDRW's activity took place through 'cellules', or research units which were set up on fixed-term contracts either by central government, or by the Regional Executive. Whilst these 'cellules' were administered by the SDRW, their operating costs were paid in full by the sponsoring government body. Similar 'cellules' are administered by the SDRB on behalf of the Regional Ministry.

vi) Parallel credits. The SDRW was able to draw funds from the National Parallel Credit Fund, a fund which was established to provide finance for use in Wallonia in proportion to the sums being expended on the development and modernisation of the Flemish port of Zeebrugge. For each BF2 of assistance given to the Zeebrugge project, BF1 is paid in the form of parallel credits to Wallonia. During its lifetime, the SDRW drew from this fund to support the work of the 'cellules' and to subsidise equity investments.

Partly because of the diversity of its funding, and partly because its capital requirement tended to be met only after expenditure had been made, the financial position of the SDRW, in comparison to the UK agencies studied above, was never secure. It was regularly hampered by delays in payment; for example, whilst it began operations in January 1976 it did not receive any state assistance for its equity investments for twelve months[14]. Similarly, funds to support equity projects undertaken during 1977 were not paid out until 1979.

Dutch agencies are constituted as private limited liability companies under Dutch law. They each have access, therefore, to capital raised by the original issue of their shares, though in the case of both the NOM and the OOM these shares are 100% owned by public authorities. Moreover, the capital raised from these issues has been small in terms of the agencies' overall budgets (1m Dfl, or approximately £250,000 in the case of the NOM and 200,000 Dfl, or approximately £50,000 in the case of the OOM). Dutch agencies derive the bulk of their funds from loans contracted on the commercial markets under state guarantee. By underwriting these loans the state can therefore exercise control over the agencies' expenditure. The limit on the NOM's annual expenditure is determined by the difference between the cumulative loan ceiling set by agreement between the agency and the government, for that financial year, and the total sum of loans already contracted under state guarantee up to the end of the financial year[15]. Actual expenditure is determined by the level of loans raised in that financial year on the commercial markets. The operating costs of the NOM, which include salaries, pensions and administrative overheads, are paid by the national government, whereas those of the LIOF are paid jointly by the national and provincial authorities (over and above the amount earned by the LIOF on its investments). Both the OOM and GOM receive direct public assistance in the form of subsidies from the central government (Ministry of Economic Affairs) and the provincial authorities; these authorities have also been involved in the joint guaranteeing of investments.

In Luxembourg a specific budget is set aside in the financial provisions of the ARBED steel company for the running of the ARBED New Industries Department[15]. Though this budget ceiling is not inflexible, company policy during the economic recession of the late 1970's/early 1980's has been to adhere to budget wherever possible. Revenue gained from any of the Department's operations (such as the lease of factory-sites) is not retained separately. In its work, the New Industries Department draws frequently upon the resources of other departments, both within the company, and internationally within the group, and it is, therefore, not possible to give an accurate financial costing of the Department's activities. However, financial control rests, indisputably, with the general management of ARBED.

With the exception of ARBED, the agencies described in this study are primarily funded by government authorities. Those bodies such as the NOM and LIOF, which are able to raise capital on the open market, are subject to limits on their borrowings imposed by government through the regulation of loan guarantees. Even ARBED's New Industries Department cannot be said to be completely free from government influence over its financing, since the Luxembourg State now holds approximately 20% of ARBED's sharestock. The use of public money involves the acceptance of conditions imposed by government, as has been shown above with regard to the HIDB. In the case of UK agencies both overall expenditure and expenditure by function is closely regulated by and subject to the approval of relevant government departments. The provision of government finance also tends to involve the recipient body in time-consuming regulatory procedures, which can affect various aspects of their work. For example, UK agencies are required to make public tender every time they wish to use outside consultants for research work[17]. Similarly, a report prepared for the Highland Regional Council in 1979 accused the HIDB of being 'too bureaucratic and commercially-minded' in dealing with applications for financial assistance[18]. The Board's approach in this matter is, however, subject to arrangements made by the Secretary of State for Scotland, which strictly regulate the type of concern which can be assisted, and the procedures which must be followed when dispensing aid.

It can be argued that governmental control over the financing of UK regional development agencies has been increased since they were first established. Investment failures such as Lewis Stokfisk (HIDB), Stonefield (SDA), P Leiner (WDA), and De Lorean (NIDA) have each resulted in parliamentary investigations carried out by the Committee of Public Accounts (COPA)[19]. These, together with the regular COPA reports on the agencies' annual accounts, have produced recommendations for change in the financial practices of the agencies. It was a COPA report, for example, which first recommended the adoption of performance-related criteria against which the agencies' investment and property functions could be analysed[20]. Other recommendations have been made by the Comptroller and Auditor-General who also conducted an investigation into the investment activities of three of the main agencies, the SDA, the WDA, and the HIDB[21].

The concept of financial control must be viewed in a slightly different context with regard to agencies in the Benelux countries. In Belgium, for example, whilst regional development agencies receive government funding through the Regional Executive, in the case of the Flemish GOMs, or through the Regional Ministry, in that of the SDRB, their constitutions provide for a system of political control through representative governing structures, which do not exist in the UK. Moreover, Flemish GOMs are not involved in high-risk financial activities such as equity investment and factory development. Finally, a large part of government assistance is provided in the form of a labour subsidy, a set figure laid down in legislation, and related to authorised staffing levels. These factors, together with the consideration that the overall sums involved are proportionately far less than those of UK regional development agencies, suggests that there is potentially less scope for government regulation of the agencies' financial activities.

In the Netherlands, the position varies again, as regional development agencies are constituted as private limited liability companies, not directly linked to government. In respect of certain agencies, such as the NOM, the government may still retain control over financial provisions through a majority (in this example 100%) shareholding, but where the government has only a minority stake, control may be of a more limited nature, exercised mainly through its power to set the ceiling on loan guarantees.

ii) Structure

At the managerial level UK agencies are, in general, organised functionally, on the basis of operational and supporting departments, each under the supervision of a senior member of staff reporting to a Chief Executive, who in turn, reports to the Board of Directors. For example, the HIDB departmental structure is divided into four operational divisions, which implement policy on the ground: fisheries, industrial and business development, land development and tourism. These divisions are complemented by four supporting divisions, whose services can be utilised across the boundaries of the implementing divisions, and which carry out the important internal functions of the Board: administration, finance, legal, and policy and research. These eight divisions are each under the immediate control of their divisional head. However, structures do not always rigidly conform to the model outlined above. For example, in recent years the SDA and WDA have both created divisions which comprise both operational and supporting departments, finance and property management in the case of the former, administration and business advisory services in that of the latter*. There are also anomalies at senior staff level. Whilst all the agencies operate a system whereby divisional heads report to the senior staff member, only in the cases of the SDA and WDA, where the member is the Chief Executive, does he have a seat on the Board of Directors. In respect of both the HIDB and MWD, where the senior staff member is the Board Secretary, as well as the IDB where he is the Chief Executive, the individual concerned has no seat on the board. The Board of Directors usually has a Chairman and Deputy Chairman, appointed by the relevant Secretary of State, rather than elected by the Board members, who are themselves appointed on fixed-term contracts by the same authority. Appointments to the Boards of the IDB and the LEDU are formally the responsibility of the Head of the Department of Economic Development, though press reports indicate that appointments are in practice made by the Secretary of State. The role of the Boards of the agencies, and in particular, their changing composition, will be discussed below.

Certain UK agencies have attempted to introduce a measure of administrative decentralization within their organisations, involving varying degrees of delegated authority, and forms of geographical structure. In 1983, the HIDB extended its number of area offices to

* The WDA's internal management structure has subsequently been revised once more, returning to a pattern conforming with the operational/support divide.

ten, and empowered individual directors and designated senior staff to make decisions concerning investments of up to £25,000. The WDA, in April 1984, introduced a system of eight regional offices, each run by a Regional Manager responsible for all Agency business operations within their localities, including the investment, within defined limits, of funds in local companies. LEDU operates a network of 4 area offices, supervised by area panels which cannot sanction investments, but can make recommendations to the Central Board of Directors, which includes the four area panel chairmen. In April 1984 the SDA opened a 'multi-function' office in Aberdeen to serve the Grampian region, and to provide a countrywide service for the oil and gas industry. However, though it was by 1984/5 operating sixteen other offices outside Glasgow, these do not represent any structured form of decentralization, being made up of a variety of area project, task force and estates offices, and small business units, each serving different sectoral or spatial needs. Prior to the winding up of its regional investment role, the NEB/BTG had established two regional investment boards and five regional enterprise offices in the English Assisted Areas. The offices were given a considerable measure of delegated authority, though their activities were co-ordinated through the NEB/BTG's regional division in London. In particular, the regional investment boards had the power to approve new investments up to a value of £500,000[22], and were able to make recommendations to the NEB/BTG Board on investments above that figure, and generally advise the Board on matters of importance within their regions. However, bearing that latter most point in mind, it is significant that they did not have the power to intervene in the cases of the large NEB/BTG-owned companies which operated in their region.

There exists an inherent tension within the structure of UK agencies between the demands of a civil service and a business organization. The traditional argument for organisation along civil service or 'bureaucratic' lines is that it strengthens accountability and therefore provides for greater public control of the agencies. Moreover, many of the agencies' function have been inherited from other government bodies; their closeness to government is most notably expressed in the operation of the IDB within the Department of Economic Development. However, one of the main intentions behind the establishment of the agencies was in order that they could implement economic initiatives, more quickly and flexibly than traditional government organisations. Consequently, the SDA has always emphasised the entrepreneurial outlook of its staff, and in 1984 became the first agency to introduce a special performance-related salary scheme for its senior staff[23]. Interviews conducted during this research indicate that this conflict between 'entrepreneurial' and 'bureaucratic' values and methods of organisation is never far beneath the surface within the agencies. Occasionally it breaks out into the public arena, as in July 1985, when members of the IDB were reported to be 'angry' over the appointment of a career civil servant to the post of IDB Chief Executive, a move, which according to a national newspaper, 'reasserts tight civil service' control over a body initially intended to be 'largely autonomous and entrepreneurial, and to bring industrial and commercial expertise to a task previously handled by civil servants'[24]. The dilemma of the Thatcher government has been to encourage the agencies to take up an 'entrepreneurial' approach, without surrendering its political control over their activities, particularly in the field of investment, where the Conservatives had, in opposition, been so strongly opposed to what they saw as financial mismanagement and the squandering of public money. Its approach to this problem can be seen in the manner it has handled appointments to the boards of the agencies since 1979.

Though the boards of the agencies were never constituted on the basis of rigid tripartite representation, the aim of proponents of the agencies was to establish at their head, a broad spectrum of economic interests. Board members were, when first appointed, (in 1975 in the case of the SDA and WDA) drawn from industry, finance, local government and the trade unions. However, as has been shown in an earlier chapter, if one measures the representation of these four categories on the agency boards through from 1976 to 1985, a pattern of change is evident. In 1976, the SDA's board comprised 5 members drawn from industry, 1 from finance, 3 from local government and 2 from the trade unions. By 1985, 7 members were from industry, 1 from finance, 3 from local government and 2 from the trade unions. Turning to the WDA, in 1976 its first board was made up of 2 members from industry, 2 from finance, 4 from local government and 1 from the trade union movement. (One other board member, Lord Parry of Neyland, does not fit easily into any of the above categories, and was appointed, apparently, because of his public connections with the Pembrokeshire area). By 1985, the board's composition was 2 members from industry, 5 from finance, 3 from local government and 1 from the trade unions. If, therefore, a broad distinction is made between on the one hand those board members from a commercial or private sector background, and those from a local government, trade union or public sector background it can be calculated that the private/public sector ratio on the SDA board has increased from 6:5 to 8:5, and that of the WDA board from 4:6 to 7:4. It must be stressed that Board members do not perceive themselves to be acting in any representative capacity. Certainly, trade union representatives on both the SDA and the WDA boards do not discuss policy or Board decisions with their own unions, or with their regional trade union organisations, but act only in a private capacity.

One other interesting point arising from the above figures is that whilst on both boards representatives of private business are in a majority, on the SDA board, the greater part of that majority is drawn from manufacturing industry (Edward Parker and Co, IBM UK, Dawson International, John Wood Group) whereas on the WDA board, financial institutions predominate (Chartered Trust, Prudential-Bache Securities, National Westminster Bank, Pearl Assurance, Abbey National). This may partly be explained by noting that in 1981 the SDA established a wholly-owned subsidiary, Scottish Development Finance Ltd, to advise it on investment matters, the Board of which contained, as well as senior Agency staff, representatives of financial institutions such as Noble Grossart, Ivory and Sime, ICFC and the Royal Clydesdale Bank.

It is therefore, clear that the boards of these agencies do not act as representative bodies under the present government but as channels through which closer co-operation with the financial and commercial sectors can be achieved. This policy has been openly pursued by the Conservative government. Answering a question before the Select

Committee on Welsh Affairs in 1980, on the government's policy of encouraging the WDA to dispose of its assets, the Secretary of State for Wales, Nicholas Edwards replied that 'because I am anxious there should be proper commercial considerations given to these matters, I have strengthened the commercial representation on the Board of the agency. I wish to have available to them the best possible expertise and advice'[25]. However, judging by the present composition of the WDA board, it is not only commercial interests that are well represented on it. At least 5 of the 9 part-time Board members are also prominent members of the Conservative Party in Wales, including one ex-Conservative MP, an ex-chairman of the Welsh Conservative Party, and a former Conservative County Councillor and Parliamentary Candidate from Gwent. Only one of these Board members had been appointed prior to the Conservative election victory of 1979.

The above example illustrates the point made by C. Hood that Conservative Party opposition to 'quangos' under the Labour government of 1974/9 could partly be explained by their desire to see Conservative rather than Labour appointees on the boards of these bodies, 'snouts in the gravy train' as he describes it[26]. It also raises the issue of public input into the structures of the agencies, for whoever the boards of the SDA and WDA do represent, it is clearly not the electorate (in Wales, 23.6% of the electorate voted for the Conservative Party at the 1983 election). Other agency boards may not appear so partisan. In their report on the HIDB and its community co-operative schemes Breathnach et al argue that 'appointments to the Board are not overtly political...'[27]. This must be qualified by reference to the remark of Farquhar Gillanders, writing sixteen years earlier on the appointment of the original Board in 1965 that 'it was clear that political considerations rather than professional qualifications had been an important criterion in the selection of some of the members'[28]. However, most interesting with respect to the HIDB is that it is advised by a Highlands and Island Consultative Council, the only body of its kind amongst UK agencies, which advises the HIDB through regular quarterly meetings, and is composed of representatives of the Highlands and Islands community. Henderson commented in 1968 that 'the Council has been most skilfully constructed to represent a fascinatingly wide range of political and other interests'[29]. The Council, the membership of which was reduced from 46 to 31 in 1982, each member being appointed by the Secretary of State for Scotland on a four-year contract, has no power other than that of advising the Board on its policies and activities.

However, as stated above, other UK agencies do not possess structures accommodating even this nominal level of public representation. The impression gained from interviews with Agency staff was indeed one of hostility toward such structures, they being seen as hampering the efficient implementation of the agencies' tasks[30]. The agencies' work does, nevertheless, bring them into contact with bodies which do operate under a system of democratic control, such as the local authorities. However, no formal structures exist for co-operation between the agencies and local authorities. In Wales, for example, local authorities' structure plans are drawn up with varying degrees of co-operation from the WDA, dependent on the nature of the relationship existing between the Agency and the individual local authority. This process can lead to accusations of geographical favouritism on the Agency's part, as those local authorities which liaise most closely with it over structure plans, naturally tend to integrate them with Agency programmes.

Even in the context of a project such as GEAR, with its overtly social aims, (which include 'to overcome the social disadvantage of residents', and 'to foster residents' commitment and confidence')[31] the SDA, as co-ordinator of the groups involved, has been criticised for pushing predetermined policies rather than ones agreed through public participation[32].

A closer link between the development body and elected representatives of the 'constituency' it serves exists in the Enterprise Boards established by a number of Labour-controlled metropolitan authorities since the elections of 1981. The West Midlands Enterprise Board, for example, has 12 members, 8 of whom are county councillors, and 4 of whom act as nominated unpaid directors. These latter , nominated by the Council, are expected to have relevant experience in the field of economic development. The councillors are all members of the County Council Economic Development Committee; this committee sets out the general operating strategy of the Board, and accountability is maintained by quarterly reports from the Board and through the attendance of staff of the Economic Development Unit at Board meetings[33].

The Greater London Enterprise Board (GLEB) is managed by part-time, paid directors, none of whom are politicians, but who include representatives of the South East Region TUC, and of local employers.

The directors are served by an internal management committee, which represents the various operating divisions of GLEB. (These number five, four of which are directly involved in the provision of economic services for local companies.) The Board has, as its members, councillors who, on behalf of the Greater London Council (GLC) are responsible for appointing the Board's directors and its chief executive[34]. Accountability is maintained through the issuing of guidelines to GLEB by the GLC Industry and Employment Committee, through an annual funding agreement between the GLC and GLEB, which sets out the economic and social priorities of its work, and through the attendance of a GLC representative at all GLEB Board meetings. GlEB's work is also guided by the recommendations of the London Industrial Strategy, a document produced by the Economic Policy Group of the GLC Industry and Employment Committee, which contains detailed proposals for twenty-two sectors of the London economy.

Even in these bodies, however, emphasis is on accountability upwards to the relevant local authority department, so that though there is greater scope for the expression of local opinion than exists in the larger development agencies the structure still does not allow for broad interest representation within the organisation itself.

Benelux Agencies

At a managerial level, the organisational structure of regional development agencies in the Benelux countries does not differ greatly from that of agencies in the UK, though, as has been seen, their staff complements are generally far smaller. For example, the NOM has 7 departments, 4 of an operational nature, and 3 supporting; 3 are supervised by the Managing Director, and 2 each by 2 Assistant Managing Directors. The staff of the NOM, at 31st December 1983, numbered only 31. The Managing Director is responsible to the NOM Board of Directors, which is appointed by the sole shareholder, the Government, through its representative, the Minister for Economic Affairs. The Managing Director does not have a seat on the Board. As will become clear, one of the most striking characteristics of the governing structures of Belgian and Dutch agencies is the strict demarcation line drawn between policy-making, supervising and implementing structures. The management of the NOM is appointed by a meeting of shareholders (which in practice means the government, through the Minister of Economic Affairs) and can be suspended or dismissed by the same authority. Some of the agencies do not, however, base their structure on the separation of operational and supporting departments. The LIOF, in 1985, reorganised its four operational departments into two divisions, finance and development, each comprising departments whose work was of a nature both operational and supportive. GOM-WV operates four departments, which perform mixed functions, supervised by four departmental heads, one of which is the senior staff member, or general manager.

As has been noted in Chapter Three, Belgian agencies have their staffing levels laid down in statute. The staff structure is also rigidly defined. The regulations stipulate not only the number of staff the agencies should employ, but also the number to be employed on each of the various salary grades, and the type of positions in which they should be employed. It is as a result of such regulations that difficulties arise like the SDRW's inability to improve its internal audit procedure for the want of a suitably qualified member of staff (see Chapter Four). Though the agencies are keen to attract personnel with experience of industry and commerce, the staff of the agencies are, in effect, public employees. When the SDRW was disbanded in 1983, many of its staff were redeployed to other regional government organisations[35].

Regulations governing the personnel of Dutch agencies are not so restrictive. It may be suggested that it is as a consequence of this, that Dutch agencies have been better able than their Belgian counterparts to present an image which divorces them from mainstream public sector organisations. Two examples taken from agency publicity material illustrate this point:

> "It is the NOM's policy to appoint only people with a good record of previous industrial experience to both management and administrative positions,, as th NOM considers that this will lead to more effective performance"[36].

> "The Province (Overijssel) felt that assisting small and medium-sized companies was a must, but also realise that public officers cannot operate freely and effectively in this field. So they funded a group of managers and businessmen with extensive international experience in industry, finance and consulting, who are fully dedicated to leverage (sic) the relative strengths of small and medium-sized companies'[37].

As, in this respect, the internal organisation of Dutch agencies more resembles that of a private company than of a government organisation, so their governing structures differ from those of the Belgian agencies. Shareholders appoint the Board of Directors (Raad van Commissarissen). In the cases of the NOM and OOM, these are made up of representatives of both central and regional governments, and of employers and employee organisations, though in the case of the NOM trade union representation was withdrawn in 1977, and reinstated only in 1983[38]. As in the UK the tendency has been for the Board of Directors, or RVC to assume direct control of the agency's management. The structure of the NOM originally made provision for this task to be carried out by a Commission of Delegates (Commissie van Gedelegeerden) consisting of three members of the RVC, but up until 1979, according to Yuill, this system has not been carried out in practice, the RVC choosing to supervise agency activities directly. Each agency in the Netherlands also has its own advisory committee (variously called Raad van Advies, Raad van Advies en Overleg, Advies College) composed of representatives of government organisations, the municipalities and local employers. The importance of these committees appears to vary from one agency to another, but they are generally convened only once a year.

In Belgium, representative procedures are more formalised, and have been covered in detail in Chapter Four. As in Holland, the senior staff of the agencies form a distinct cadre, supervising the activities of the various departments, but not having any position in the governing structures of the agencies. The supreme governing body of Belgian agencies is the General Assembly (Assemblée

Générale/Algemene Vergadering), which is composed of various representative of political parties, according to their strength on the provincial and municipal authorities, of employers and workers' organisations, and of the intercommunales. The General Assembly elects the members of an Administrative Council (Conseil d'Administration/Raad van Beheer) in proportions directly paralleling the composition of the Assembly itself. The Administrative Council then appoints the members of an Executive Office (Bureau Exécutif/Direcktiecomite). Each Belgian agency therefore has a three-tier structure of control over its operations, each level carefully reflecting a balance of political and economic representative interests. The Flemish agencies also have a separate supervisory structure, which consists of a College of Commissioners (College van Commissarissen) made up of representatives of both public and private sector organisations. It is on this body that central government is represented by a Government Commissioner and an Inspector of Finances, though they sit on the Administrative Councils of the SDRB and the now-defunct SDRW. The structures described above stand in marked contrast to those in operation amongst Dutch and UK agencies. The General Assembly of the GOM-VB, for example, has 35 representatives of political parties amongst its membership of 81, 11 Christian Democrats, 10 Liberals, 7 Socialists and 7 Flemish Nationalists. The representation of the various political parties on the General Assembly changes after every provincial election, the Christian Democrats, for example, lost four seats on the General Assembly after the 1982 provincial elections. Political representation was even more prominent in the General Assembly of the SDRW, 16 of the 32 members were delegates from the provincial authorities. However, the research did not uncover any significant evidence that the activities of Belgian agencies were hampered by the presence of diverse political groups on their policy-making bodies. Most interviewers, when questioned on this subject, seemed to accord with the view expressed in one SDRB promotional brochure that 'the broad representativeness of the General Assembly and Board of Directors ensures the effectiveness of the Brussels Regional Development Authority's decisions and effectiveness'[39]. The governing structures of the SDRB are divided not only by political ideology but also by language, it being the only agency which operates in an officially bilingual area. Nevertheless, an SDRB staff member interviewed during the course of the research, whilst conceding that the SDRB had experienced 'plenty of political problems', argued that the political parties tended to have common agreement on the need to develop Brussels and that this consensus over-rode party divisions in decision-making[40]. The former Secretary-General of the SDRW, Emile Nols, spoke of 'a unity of purpose' amongst delegates to the Société's governing bodies[41]. However, an alternative view was expressed by an MEP for the Volksunie, the Flemish Nationalist party which seeks an independent Flanders. He claimed that establishing a separate agency for each of the 5 Flemish provinces, each body having a different political balance on its controlling committees, meant a deliberate strategy of 'divide and rule' which denied the instruments of economic development in Flanders common direction[42].

The New Industries Department situated within the Anti-Crisis Division of the ARBED steel company in Luxembourg has a staff of only three, an engineer, an economist and an administrative Secretary[43], and it is not therefore practical to compare its structures with those of other agencies. It is accountable to senior management through the heads of the Anti-Crisis Division. It is also able to utilise the resources of departments within other divisions of the company.

iii) Control

The concluding section of this chapter sets out to broach, in the light of preceding analysis the question of control in relation to the strategies and activities of the development agencies. At this stage, the issue will be raised in practical rather than theoretical terms, the need being to identify at what level effective control, that is, decision-making power over resources and functions, is exercised. A constitutionalist might argue, for example, that the UK nationalised industries, being accountable to parliament through the relevant government minister, are ultimately controlled by those who elect the UK parliament. No-one could pretend, however, that when decisions are reached over the closing of 'uneconomic' coal-mines, or the electrification of a certain stretch of railway line,, it is the electorate which is directly exercising power.

Examples cited in this and the preceding chapter, have indicated that, in respect of the substantial majority of agencies under study, effective control of the major aspects of their character, rests with government, either central or regional. In every country that the study has covered, with the exception of Luxembourg, government plays See p 219 the dominant role in the provision of finance to the agencies, whether it be through the payment of operating costs, the underwriting of loans, or the disbursement of grants. In the UK and Belgium, the powers and objectives of the agencies are delineated by government statutes, and, in the Netherlands, central or provincial government authorities had majority shareholdings in three of the first four agencies to be established.

Many of the agencies also have close working relationships with other state financial institutions. In the Netherlands, the NOM had, during its first years of operation, a representative of the National Investment Bank (NIB) on its Board, to advise on investment matters[44]. Representatives of the NIB and the Dutch Restructuring Company (NEHEM) sit with representatives of central government departments on the Haagse Contact Group, which oversees government funding of the LIOF. Belgian agencies have developed close contacts with the government-controlled Regional Investment Companies (SRI/GIM - Société Régional D'Investissement/Gewestelijke Investeringsmaatshappij) since the agencies' investment functions were transferred to them. The SDRB, for example, has established a written protocol with the regional investment company for Brussels,, the SRIB[45]. In Belgium, the agencies also play an important part in the government planning process, channelling inventories of the socio-economic needs of their respective regions upwards to the regional government, and assisting with technical issues in the implementation of the plan. In the UK, two of the agencies, the SDA and WDA, were specifically established as part of government industrial strategy, the main instrument of which was the state holding company, the National Enterprise Board (NEB). All five main UK agencies continued to meet twice a year with the NEB, even after its incorporation into the British Technology Group (BTG).

In the early days of the agencies' operations, one of the most persistent concerns voiced by critics was that the various responsibilities of the NEB and the development agencies were not clearly defined.

Given, therefore, the pervasive nature of government influence on the activities of agencies it would nevertheless be inaccurate to characterise all agencies as being equally affected by the relationship. Degrees of control differ according to circumstance. For instance, it may be wholly consistent with government strategy to allow an agency a degree of independence, and freedom from civil service control, given that the agencies are generally required to act with a speed and flexibility not possessed by conventional government bodies. Similarly, the structure of an agency may be important in determining the practicality of certain types of control. The status of agencies in the Netherlands as private companies, may make them less amenable to the type of control exercised through government departments, over UK agencies which are constituted as public bodies. There is certainly a qualitative difference between the nature of control as exercised by the IDS over the HIDB, where, as has been shown above, expenditure figures from the agency must be deposited in triplicate on the departmental desk every month, and that exercised by the Dutch government over the LIOF, where Board members can reject projects supported by the government and its representatives on the Board[46].

Control can be exercised in a variety of ways, through financial limits, operating guidelines or direct representation on the Board, to give only three examples from the agencies in this research. The UK government has, in the main, tended to exercise its authority through financial controls over the development agencies in the same way that it has controlled nationalised industries, without resorting to ministerial representation on the Board. (Some might argue that this is a hollow distinction, given the political composition of the WDA Board, discussed above). The NOM, however, has two central government representatives on its Board, whilst the Belgian government has two official representatives on the Administrative Councils of both the SDRB and the SDRW (in respect of the Flemish agencies, these officials sit on the supervisory organisation, the College of Commissioners). In effect, the nature of control can be determined by a number of different conditions. For example, there is the constitutional tradition of the country concerned in the running of the type of organisation which the agencies represent. In the UK, there has been a growing interest, both academic and political, in the use by government of non-Departmental special-purpose bodies. Most commentators have emphasised the close control that government maintains over these 'quangos'. Christopher Hood has argued that 'repeated attempts are made to create 'rational' accountability systems through financial targetry, and the like, but the attempts at more or less unacknowledged political intervention in nominally independent agencies appear to be endemic to the system, as with the recurring plant-closure issues in which nominally 'independent' industrial assistance agencies may come under pressure from Whitehall notably because ministers are themselves under pressure from MPs and the mass media [47]. However, established practice may differ in other countries, as in Belgium, where the need to ensure equality of treatment for a variety of political and linguistic groups, has led to many public organisations being run by boards composed of representatives of these interests, as well as representatives of government.

This example of interest representation in Belgium leads on to a second point affecting the nature of control, which is that evidence gained from this research suggests that there may be a correlation between the relative degree of government control, and the size of the budget of the Agency concerned, and the political sensitivity of the area in which it is employed. In Belgium, the issue of regional economic development is inextricably linked with the larger questions of regional identity and self-government, which in turn have serious implications for the nature of the Belgian state itself. Because it is of paramount political importance that the government is still not perceived to be favouring one linguistic community over the other, it must have sufficient control over agency staff and resources to ensure that they remain broadly equal over time, hence, for example, the rigid controls over staff complements noted above.

In the UK, this point is best illustrated by the example of the creation of the IDB in 1982 as the executive arm of a government department, the Department of Economic Development (DED). This marked a significant increase in government control over economic development in Northern Ireland, introducing a relationship between agency and government closer than that existing anywhere else in the UK. It could be argued that this change was a reflection of the importance of both the factors mentioned above, budget-size and political sensitivity. Firstly, the amount of public money expended on economic development in Northern Ireland was considerable, as had been highlighted by the loss of NIDA's £17.7m investment in De Lorean. Secondly, as this high level of expenditure indicated, the government attached great political importance to successful economic development in Northern Ireland as a means of defusing sectarian tensions. (The policy was first enunciated by a Labour Northern Ireland Secretary, Roy Mason, as 'jobs, homes, hope'.) As Terry Carlin, Northern Ireland Officer of the ICTU, a body which consistently opposed the government's plans to incorporate the IDB into one of its own departments, wrote in a memorandum published in January 1982, 'the government's main arguments against establishing an independent Board include the close relationship between government policy and economic and industrial development'[48]. In other words, the work of the IDB, being central to the government's overall Northern Ireland policy had to come under direct government supervision through the Northern Ireland Civil Service.

The third and final factor to be considered here is the character of senior personnel within the agencies. The more attuned these individuals are to the government's objectives concerning their organisation, the less necessity the government will feel to interfere in its day-to-day running. Where it exists, governments prefer to use their power of appointment and dismissal to insert in strategic posts managers and administrators that can be relied upon in this respect, hence the changes noted concerning senior staff at the SDA and WDA. However, there are occasions when the attitude of senior staff and Board members can conflict with those of central or regional government representatives. For example, during the period that the SDRW was under the supervision of central as opposed to regional government, its General Assembly, drawn as it was from regional bodies, was dominated by representatives of the Socialist Party and its trade union allies. In circumstances such as these, it may be necessary for government to attempt to exert greater control over the agencies.

However, if the extent of government control over the agencies is variable, then consideration must be given to other potential sources of influence. Two groups which have an involvement in the governing structures of agencies in the UK, Belgium and the Netherlands are employers, or the representatives of private business, and trade unions. However, their relative importance in relation to the agencies tends to depend upon the extent to which government is sympathetic to their respective interests. For example, the election of a Conservative government in 1979 resulted in a reorientation of agency activities which gave private sector interests greater influence. The SDA will not now make an investment unless it can attract private sector support. Other changes can be attributed to private sector pressure such as the releasing of profitable investments from agency control, and the opening-up of low-cost factory premises to service as well as manufacturing industry.

As with the employers, the influence of trade unions on the agencies tends to depend upon the leverage it can exert through government at any given time. However, since the agencies have, in general, been operating during a period of long-term economic depression, the pressure which they have been able to exert on governments determined to pursue policies inimical to the interests of labour, has been minimal. The Scottish TUC and Wales TUC strongly supported the creation of the SDA and WDA respectively, and the ICTU has been closely associated with economic development agencies in Northern Ireland. Individual trade unionists benefited from the patronage of the Labour government in being appointed to the governing bodies of the agencies. The first Chairman of the WDA was a former general secretary of the Iron and Steel Trades Confederation (ISTC), Sir David Davies. However, in the UK as in the Benelux countries, trade unions became disillusioned with the operating methods of the agencies. In the Netherlands, as noted above, trade union representatives withdrew from the governing structures of the NOM in 1977 when it became clear that certain NOM investments might lead to short-term job-losses. More recently, the SDA has been accused by senior trade union officials of trying to attract foreign investment to Scotland by the offer of a 'union-free environment'[49]. Trade unions have been more prominently involved in the activities of the Enterprise Boards, which generally have trade union representation at Board level, and which insist on the full recognition of trade union rights by the firms in which they invest. The South East Region TUC, in particular, has worked closely with GLEB in formulating and implementing the London Industrial Strategy.

Whether as 'social partners' co-opted by the state in the administrative structures of the agencies (as in Belgium), or as the beneficiaries of state economic policy (as in the UK, the employers under the Conservative government of 1979 onwards, and the trade unions, to a lesser extent, under the Labour government of 1974-79), the role of these economic interest groups in relation to the agencies has been subsidiary to that of the state.

Any random survey of significant events in the history of these agencies under study would provide a powerful indication of the main conclusion of this chapter, that it is the state which effectively controls the character and direction of the agencies. It was the Wallonian regional government which wound up the SDRW[50], it was pressure from government which led to the selling off of the SDA's investment in Stonefield Vehicles[51], and it was the Dutch government which in 1985, ordered a review of the agencies' operations[52]. Similarly, the transfer of the Belgian agencies' investment functions to separate regional investment bodies, the involvement of the SDA in the GEAR project and the removal of the province of Drenthe from the geographical remit of the NOM, all resulted from central government decisions. It might be argued that in taking these actions, the state was merely responding to external pressures. Even if this is the case, and the argument is not one which will be taken up here, it does not detract from the central implication that regional development agencies must be analysed in the context of their role as state-directed agencies.

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CHAPTER SEVEN

Agency Performance (UK agencies)

This chapter attempts a tentative analysis of an area of the agencies' work which has not previously been the subject of detailed study, that is their performance. Performance can be considered in two aspects, the effects which the agency generates on the economy in which it operates, such as changes in ownership structures, in the availability of industrial property, even the sectoral composition of the local manufacturing base, and the extent to which the agency has been able to achieve its stated statutory objectives. Both these definitions of performance entail considerable difficulties in measurement. In the first instance, it is extremely problematic to prove a causal relationship between the activities of any one agency and changes in regional economic indicators. One example of this is the debate which took place over the contribution that the HIDB had made to reversing the population decline in many of the localities in which it operated. It proved impossible to disentangle the effects of the activities of the agency from those of the burgeoning North Sea Oil industry[1]. As for measuring performance by reference to agencies' stated objectives, this process is encumbered by the vague nature of these objectives, as propounded in the founding legislation of a number of agencies, and noted above. For example, one of the WDA's main purposes is to 'promote industrial efficiency and international competitiveness in Wales'[2].

In recent years the United Kingdom has, in the case of two agencies, the SDA and WDA, taken to setting public performance targets in relation to two of their statutory functions, the provision of finance, and property for industry. However, these targets are designed purely to measure the economic return on public expenditure, and as a report by the Comptroller and Auditor General stated in February 1985 'financial duties set for the SDA and WDA, in the absence of other tests of performance, did not provide an adequate overall measurement of operational efficiency'.[3] In subsequent sections of this chapter, the agencies' performance in terms of their investment and property functions will be considered not only in relation to the financial return which these activities provide the agencies, but also in relation to other effects such as the type of company which these functions support, the employment they sponsor, and the geographical areas into which they are directed. However, the activities of agencies in the United Kingdom and the Benelux countries are not confined to the functions of investment and the provision of property; indeed, certain of the Belgian agencies carry out neither of these functions. The effects of other functions are difficult to evaluate, for their objectives may be social as well as economic. For example, expenditure on the improvement of the environment may make the affected localities more attractive to incoming or expanding business, but also has the purpose of making safe dangerous coal deposits, and of enhancing the living conditions of residents.

This chapter sets out to examine the following questions, amongst others. What type of companies are the agencies aiding through their activities? Is it possible to measure the number of jobs they are creating? What are the financial results of their operations? The aim of such an analysis is to establish an accurate picture of the economic consequences of their work. It is hoped that this approach will be more profitable than attempting to make a value judgement on their 'effectiveness', which would be dependent upon a perception of the aims which the agencies are considered to be pursuing.

Industrial Investment

Formal measurement of the investment performance of the two main UK agencies, the SDA and WDA, was not introduced by the government until 1981 (though performance had been measured internally by sponsoring departments in previous years). Moreover, as mentioned above, these figures give only a partial indication of the nature and performance of the agencies' investment portfolios. They show the total financial return earned on investments over a twelve month period, expressed as a percentage of the capital base, that is the Public Dividend Capital and National Loan Fund monies made available to the agencies. Since 1981, performance, as measured by these instruments, has not matched up to government expectations, as revealed in the annual and cumulative target rates of return established by the sponsoring departments (See Table 1). As can be seen, whilst the SDA's rates of return have been low, they have been relatively consistent, whilst those of the WDA have tended to fluctuate. This might suggest that the WDA investment portfolio is less balanced than that of the SDA, but statistical analysis of the two agencies' portfolios according to industrial classification does not support this contention (See Table 2). A survey of the investment activities of the SDA, WDA and HIDB covering the period between June 1981 and June 1982, published in February 1985, showed that the SDA and WDA, had similar investment failure rates (19.6% [4] and 22.7%[5] respectively, of investments by value failed or expected to fail). Interestingly, the HIDB's investment failure rate was significantly lower, at 12.3%[6], and the Board also submitted to the report that its failure-rate since it made its first investment in 1968, was only 7.7%[7]. As will be shown below, the HIDB has a far greater proportion of its investments in small business than both the SDA and the WDA.[8]

However, it is not easy to gauge accurately the financial performance of agency investments in the early years of their activities. For example, Minns and Thornley, who analyse the investments of the Northern Ireland Finance Corporation and the Northern Ireland Development Agency between 1972 and 1976 in their study of state shareholding, argue that it is not possible to calculate a rate of return for the companies invested because of the lack of available information[9]. They note, nonetheless, that of 17 companies invested in 1976, 4 were in receivership or liquidation, and 1 was not trading[10]. The NIFC, established in 1972, incurred considerable investment losses in view of its remit to act as a financial rescue vehicle for companies which were suffering trading difficulties. Its successor body, the NIDA, only invested in such companies on the instruction of government, and then under guarantee that all losses incurred in undertaking such cases would be reimbursed. Notwithstanding this, the net investment losses of the NIDA in its first year of operation were £6,854,000[11]. In 1978 the Northern Ireland Development Order wrote off £7,338,000 of the agencies liabilities[12]. Its accumulated deficit at the end of the 1980/81 financial year was £18,329,000[13]. The IDB, which succeeded the NIDA in 1982, has not published information concerning financial returns on its investments; in March 1985, 6 of its 36 investments were in liquidation or receivership, representing an investment value of £764,000 out of a total portfolio worth approximately £12 million[14].

As already noted above, the HIDB has claimed to the National Audit Office that its investment failure rate between 1968, when it first took equity and 1982, was extremely low. This appears to be supported, at least with regard to the earlier years of investment activity, by the conclusion of Minns and Thornley that 'the success rate of the HIDB companies as a whole, as far as it is possible to judge, compared favourably with that of private companies unsupported by the state. Between 1968 and 1975 three companies in which the HIDB had shares were liquidated and four were taken over. Excluding those that were liquidated, the profits record for those for which figures are available show a reasonable achievement, and in three cases show a very high achievement'[16].

Prior to 1981 the methods that the agencies used to measure their performances varied. The amounts set aside in provision for losses on investment annually by the WDA shows how investment losses grew with the size of the portfolio. Of its investments between 1976-1981, those to the value of £4,600,500 consisted of 16 companies in receivership or liquidation, or that had ceased trading (27.2%). Writing in 1980, Cooke noted concerning the WDA 'the evidence that its overall loss on capital invested from the beginning amounts to only

4.5%'[17]. As to the nature of the holdings at this earlier stage, whilst figures show that there were proportionately more investment stakes comprising 30% or more of the equity of an individual company, there was never a stage when the WDA held any significant number of subsidiary companies. This was in apparent contrast to the Scottish Development Agency, which according to the Financial Times, had by 1979 'established 18 wholly-owned subsidiaries of which three have collapsed, whereas the WDA has only one majority holding'[18]. As the newspaper then noted, the investment policies of the WDA were therefore, being unfavourably compared with those of the SDA as being too cautious and conservative. Cooke disagreed with this view, and claimed in support of his argument that by 1980, far from being 'aggressive and risky' the SDA level of industrial investment was lower than that of the WDA and that fewer SDA investments had gone into receivership[19]. (The premise being that if the SDA had been pursuing a more adventurous investment policy than that of the WDA, then it would have had to write off more investments). A possible explanation of these seemingly opposing views is provided by the Scottish TUC in its critical review of the SDA's first five years of operation 'the Scottish Development Agency - the first half decade'. The report states that 'in a fairly early period of its development, two small companies were given backing (SCOFISCO and Tridynamics). The collapse of these companies and the appalling publicity which they attracted (including totally unscrupulous attacks from the Shadow Secretary of State and the CBI) resulted in a change in thinking within the SDA. The Chief Executive made it clear to the STUC General Council that there would be less emphasis on major holdings in relatively small and growing companies on the basis that such companies required as great an input of management time as much larger undertakings did'[20].

Changes in the investment policies of the SDA and WDA cannot therefore be wholly ascribed to the restrictions brought in by the 1979 Conservative government. Its Labour predecessor had already cut back levels of investment funding, returns on investment were low, and there were few majority holdings in either portfolio. The rhetoric which surrounded the founding of the agencies which described state holding companies which would establish their own enterprises and take leading manufacturers in the regional economy into public ownership should not be allowed to cloud the fact that under Labour the investment policies of the SDA and WDA were never more than cautious.

It has been noted above that the size of agency investments, both in terms of financial value and of the proportion of equity stock, have tended to decline in recent years, particularly since the revised investment guidelines issued to the SDA and WDA in 1979 obliged them to gain the approval of their respective Secretaries of State before making an investment of over £1 million, or over 30% of the equity stock of an individual company[21]. Two important facts emerge immediately from an analysis of the size of the agencies' investments, using the most up-to-date descriptions of their portfolios (See Table 3). Both the SDA and WDA have portfolios the balance of which, in terms of the number of companies invested, is weighted towards comparatively small investments (under £100,000). This is particularly the case in relation to the SDA, which channels investment through its Small Business Unit. In contrast, 16 of the 30 investments in trading companies noted in the 1984/5 Annual Report of the IDB, are of over £100,000[22]. This difference in the composition of the portfolios may partly be explained by reference to two factors, the ability of the IDB to give grant (as opposed to share and loan) assistance to many Northern Irish companies, and the continuing activities of the LEDU, which provides financial assistance for Northern Irish companies with less than 50 employees. Unlike its sister agencies in Great Britain, the IDB therefore offers equity and loan assistance only to companies of a certain size.

The HIDB also offers grant assistance to private companies, a facility which it operates in conjunction with the provision of equity and loans. According to evidence submitted by the HIDB to the Committee on Scottish Affairs 'of the 1,100 cases'(of financial assistance, grant, equity and loan) 'in 1982/2, 51% involved a financial package of £5,000 or less, and 73% a package of £10,000 or less'[23].

As for the size of equity stakes, the agencies, as indicated above, now have few majority holdings in invested companies. For example, of 212 companies supported by the WDA through investment at the end of March 1985, it had a controlling interest in only 4, 3 of these being finance or holding companies set up by the Agency to assist its investment policies[24]. This characteristic is even more pronounced in the case of the SDA. Of the 772 in its investment portfolio, it has a majority share in only 2, one of which, SDF Limited, serves as a source of investment advice for the agency, which established it, and has only nominal capital [25]. Even the IDB which, as was shown above, has made a higher proportion of large investments than the other agencies, possesses only 3 majority stakes in its portfolio of 36 trading and non-trading companies[26]. Unfortunately, figures are not available concerning the number of instances in which the agencies have exercised their right to appoint non-executive directors to the boards of companies in which they invest, though the impression gained during the course of research was that the practice was not widespread, and generally was confined to larger investments, such as De Lorean. It should be said, at this point, that the Comptroller and Auditor General's report on the investment activities of the SDA, WDA and HIDB, which was published in February 1985 expressed general satisfaction with their techniques of investment monitoring and appraisal, though with certain qualifications[27]. Also in 1985, a Public Accounts Committee report on nominee directors on the boards of publicly-invested companies noted that of the regional development agencies surveyed, only the WDA required its appointees on the boards of invested companies to submit a written annual report on the company's financial state[28]. The Comptroller and Auditor General's report also makes an interesting comparison concerning the maturity of investments within the portfolios of the three agencies surveyed which shows that at 31 March 1984, approximately 4% of the 791 companies assisted at the date by the SDA by way of loans and shareholdings, had been held in the portfolio for over 5 years[29]. The comparative figures for the WDA were 7% of 183 companies[30], and for the HIDB approximately 40% of 2,400 companies[31]. It should be borne in mind that the HIDB had operated its equity function for 16 years at the time this comparison was made, whilst those of both the SDA and the WDA had been operating for 8.

Is it possible to make comments concerning the types of businesses in which the agencies invest? Morgan has attempted a detailed survey of companies in which the WDA has invested, which he divides into two categories, 'core' and 'peripheral'[32]. The 'core' firms, which he estimates, constitute 20.8% of invested companies by number, are generally externally-controlled, with high levels of female employment, and categorised as 'light industry'[33]. 'Peripheral' firms, he claims, are usually small firms with a low level of unionisation amongst their workforces, low profits and low productivity. These findings must be seen in the light of Morgan's general view of the WDA's position in relation to the international division of labour. 'Because it is a capitalist development agency' he argues 'it is inextricably bound up with the idiosyncracies and nuances of differential economic development, as it is associated with the predominating market system'[34]. Analysis of the larger Agency investments whose activities are described in annual reports, suggest that they reflect the differing natures of the regional economies. For example of the 98 investments, details of which were provided by the SDA for the purposes of this research, 23.5% can be categorised in the textile, leather and clothing sector. This is a sector of traditional importance to both the Scottish and Northern Irish economies, and indeed, 13 of the IDB's 30 investments in companies trading at the end of March 1985 operate in it[35]. However, there is contrasting evidence, which suggests that not in all cases do the agencies' investments policies directly follow the industrial composition of the region's economy. Over 30% of the WDA's investments, for example, are, according to figures given in the Agency's 1983/4 Annual Report, in the sectors of office machinery and data processing equipment manufacture, and electric, electronic and instrument engineering, areas which do not represent industries in which the Welsh economy has any historic strength[36].

Both the above trends are noted by Minns and Thornley in analysing HIDB investments between 1968 and 1976. They note that 'the types of firm supported by the HIDB have been varied but the majority are industries which use the natural resources of the Highlands, such as fishing, tourism, game processing, and cheese making, or else are traditional to the Highlands, such as weaving. In two cases, craft industries were supported because they were considered suitable to rural areas even though they had been 'artifically' introduced. Other industries supported have been those which require a high level of technology and which are not traditional to any area of the country, such as the manufacture of optical equipment and the operation of helicopters, or industries which supply commodities for local consumption, such as boats and engineering'[37]. These comments appear to be supported by more recent figures (Table 4) which show that 51.26% of the Board's investment in the form of shares and loans has been expended on companies operating in the areas of fishing and tourism, but also that 25.04% was invested in manufacturing and processing,[38] activities, which, according to the Board have generally been 'under-represented' in the regional economy[39].

The SDA was the only agency that provided details of the ownership of the companies in its portfolio. Of the 98 companies for which it gave information, 87.8% were Scottish owned, 5.1% had their headquarters elsewhere in the United Kingdom and 7.1% were overseas companies.

However, Morgan conducted his own survey of WDA-invested companies, which concluded that 2.8% of all invested firms were owned by overseas corporations, and 16.7% by UK firms controlled from outside Wales[40]. Considering only investments over £50,000 the proportion of foreign-owned companies rises to 4.8%, and that of non-Welsh UK companies to 29.3%. The issue of the agencies' role in promoting indigenous development and whether or not they should encourage companies whose operations are controlled 'externally', either elsewhere in the UK or abroad, is a politically sensitive one. Morgan, for example, argues that whilst 'the WDA has encouraged diversification of the industrial base' it 'has, concomitantly, aided disarticulation of the Welsh economy, and has certainly helped foster the branch circuit mentality that external control brings with it[41]'. In 1983, the SDA aroused controversy by investing in an American company, International Microelectronic Products, because the company had no immediate plans to establish a presence in Scotland. However, the extent to which the agencies encourage the establishment of externally-controlled 'branch plants' within their regions cannot be judged from an analysis of their investments alone, for the type of companies in question, being, customarily, subsidiaries of multinational companies, do not require equity or loan assistance from an agency. In these cases, state financial assistance is often disbursed direct by the government under regional grant schemes.

Of the SDA's 98 investments, details of which were provided for the purposes of this research, 40 were in the form of equity investments, 29 combined equity and loan investment, 19 consisted of loans alone and 10 others involved a form of guarantee, higher purchase arrangement, or other special facility[42]. Study of the 96 WDA investments, details of which are given in the 1984/5 Annual Report, reveal certain differences in the two agencies' preferred form of investment, which centre on the WDA's use of the secured loan. Both agencies prefer to have an equity stake when larger investments are made. They also make use of quite complex share arrangements. The WDA's investment in the Saxonland Furniture Company, for example is in the form of 'cumulative convertible participating redeemable preference shares'[43].

Table 1 Government Indicators of Agency Investment Performance

WDA

Return on Investment	Government Target	Actual	Cost
1982/3	6.00	9.10	12.00
1983/4	9.00	-13.40	11.60
1984/5	3.25	-4.10	11.60
Cumulative since 1981/2		2.50	12.00

SDA

Return on Investment	Government Target	Actual	Cost
1982/3	–	–	–
1983/4	3.50	3.80	12.87
1984/5	5.30	3.90	12.46
Cumulative since 1981/2	3.90	3.40	12.70

Source: SDA, WDA annual reports

Table 2 Analysis of Agency Investments by SIC (Standard Industrial Classification)

	%		
	SDA	WDA	1DB
Manufacture of office machinery and data processing equipment	1.0	21.6	-
Electrical, electronic and instrument engineering	14.3	10.0	3.3
Textiles, leather and clothing	23.5	9.5	43.3
Manufacture of paper products and printing	5.1	8.6	6.7
Manufacture of metal goods	5.1	8.1	-
Mechanical engineering	4.1	6.6	-
Chemical industry	1.0	5.1	-
Metal manufacture	3.1	4.9	-
Processing of rubber and plastics	1.0	3.8	-
Banking finance and business services	-	3.4	-
Manufacture of motor vehicles, parts and other transport equipment	2.0	3.2	6.7

Timber and wooden furniture	7.1	3.0	6.7
Food, drink and tobacco	7.1	2.5	-
Coal extraction and manufacture of solid fuels	-	2.4	-
Other services, including recreational and cultural	5.1	2.4	6.7
Manufacture of non-metallic mineral products	1.0	1.7	3.3
Transport, communication, distribution and repairs	3.1	1.5	6.7
Other manufacturing industries	9.2	0.6	10.0
Extraction of minerals	3.1	0.4	-
Agricultural and fisheries	1.0	0.4	3.3
Construction	3.1	0.3	3.3
	100.0	100.0	100.0

Sources: WDA and IDB annual reports, and information provided by the SDA.

Table 3

Analysis of Agency Investment Portfolios by Size of Investment

	SDA		WDA		IDB	
Investments of over £500,000	8	1.0	7	3.3	3	8.3
Investments of £100,001-500,000	43	5.6	41	19.3	16	44.5
Investments of £100,000 and under	721	93.4	164	77.4	17	47.2
TOTAL	772	100	212	100	36	100

Sources: SDA, WDA and IDB Annual Reports

Table 4

HIDB expenditure (grants, shares and loans[1]) 1974-1983 by economic sector

Sector		£[2]	%
Land development	Grants	8 911 650	
	Shares & loans	14 395 096	
		23 306 746	13.26
Fisheries	Grants	10 688 633	
	Shares & loans	29 835 748	
		40 524 381	23.05
Manufacturing & Processing	Grants	19 517 553	
	Shares & loans	24 499 974	
		44 017 527	25.04
Construction	Grants	2 961 312	
	Shares & loans	3 190 091	
		6 151 403	3.50
Tourism	Grants	34 545 277	
	Shares & loans	15 040 569	
		49 585 846	28.21

Other service industries	Grants	6 264 819	
	Shares & loans	5 935 137	
		12 199 956	6.94
Total	Grants	82 889 244	
	Shares & loans	92 896 615	
		175 785 859	100.00

1 = grants, shares and loans approved

2 = at 1983 prices

Source: HIDB Annual Report 1983

Factory Construction

Scrutiny of the factory-building function is central to an analysis of agency performance, for, as has been shown in previous chapters, this function has absorbed a major part of the UK agencies' expenditure over time. The largest portfolios of property, in terms of both factory units, and floorspace, are maintained by the SDA and WDA. The WDA, for example, inherited on 1 January 1976, when it commenced operations, a stock of 16.7m sq. ft. of factory space[44]. Between this date and 31 March 1985 it constructed a further 10.7m sq. ft. in the form of advance factories, bespoke orders and modernisations[45]. Allowing for disposals, and the decommissioning of older premises, the WDA's factory portfolio had by 31 March 1985, risen to 20.1m sq. ft.[46], an increase of over 20% on the portfolio which it had inherited. As is shown in Table 5 figures provided by the agencies show that the WDA had a lower proportion of its premises, approximately 18% of available factory space, vacant at 31 March than its sister agency the SDA, for which the corresponding figure is 23.3%[47]. The agencies have, in the past argued that the proportion of premises which they own which lie vacant are broadly comparable with the proportion of vacant property owned by private property companies, allowing for the diversity of the agencies' stock. The WDA's vacant property is, however, concentrated in certain areas such as West Glamorgan, West and North West Wales[48]. Vacancy rates in Wales range from 13.6% (Bridgend area) to 29.6% (Carmarthen area)[49]. Comparable figures for a regional breakdown of vacancy rates affecting SDA property are not available in full because the Agency statistics provided on total factory stock and vacant premises are tabulated according to different geographical criteria. Those areas for which it was possible to make a calculation included Tayside and Fife, where 27.7% of factory space was available to let, and Lothian and Borders, for which area the corresponding figure was 11.3%[50]. This indicates that vacancy rates in SDA property, are like those of WDA property, subject to significant regional variation.

The SDA, at 31st March 1985, was in possession of 2,693 factory units, comprising a total of 21,765,733 sq. ft. of industrial floor space[51]. The WDA, with only 7.7% less floorspace (20.1m sq. ft.), owned 41.5% less units (1,575)[52]. Consequently, the average size of a WDA unit, at 12,749 sq. ft. , is over 50%, greater than that of the average size of an SDA unit, 8,082 sq. ft. This pattern is reflected in a comparison of the numbers of employees at agency-owned sites, (see Table 6) for the WDA, possessing on average larger units has tenants 21.6% of whom employ over 50 staff, whilst the corresponding figure for tenants of SDA-owned property is only 16.1%[54]. Interestingly, however, the average floor-space per worker employed in agency-owned premises is, in the case of both agencies, comparatively similar, 444.2 sq. ft. for the SDA, and 462.3 sq. ft. for the WDA. This indicates that the employment effects, in terms of the utilisation of factory space constructed, of the agencies' factory programmes, have been roughly equal. However, if one analyses employment in SDA and WDA-owed factories over the nine years since their establishment, it is apparent that employment has fallen, both in terms of an increase in the amount of space per employee, and in overall figures. For example, whilst on 1 January 1976, the WDA inherited 16.7m sq. ft. of factory space, on which 59,800 people were employed[55], by 31 March

1985, though factory space owned by the WDA had increased to 20.1m sq.ft employment had failed by 27.4% in these factories, to 43,400[56]. Similarly, at 31 March 1978, the earliest date for which such figures are available, 77,000 people were employed in SDA-owned premises, covering 25.2m sq. ft. of space[57]. Though by 31 March 1985, factory space owned by the SDA had fallen 13.5% to 21.8m sq.ft, employment had fallen by 36.4%, to 49,000[58]. To extrapolate further, in 1976 the WDA had 3.6 workers employed on each 1000 sq. ft. of its property; by 1985 the figure had fallen to 2.2 workers per 1000sq. ft. In 1978, the SDA had 3.1 workers employed on each 1000 sq. ft. of its property; by 1985 that figure also had fallen to 2.2.

In 1983/4 following recommendations from the Committee of Public Accounts[59], the government introduced a system of financial targets for the SDA and WDA, relating to returns made on their factory-building activities. These were meant to operate in a similar fashion to those targets which were already in operation relating to the agencies' investment activities. In terms of the per centage financial return on investment in new or modernised industrial premises, the SDA failed to meet the target set for it by the government in the financial years 1983/4 and 1984/5, whilst the WDA succeeded in meeting its targets for both these years[60]. However, the SDA's targets were twice the level of those set for the WDA, reflecting, it might be suggested, the different nature of property markets in the two countries, and it would therefore be inappropriate to place great significance on these figures.

Turning briefly to the activities of the other UK agencies in this area, the IDB inherited, in September 1982, a total of 635 factory, workshop and warehouse units, comprising a floorspace of 20.5m sq. ft., from the former Department of Commerce[61]. Approximately 12% of this floorspace was available for letting or awaiting surrender on the occasion of the transfer, according to the IDB 1982/3 Annual Report[62]. The IDB's predecessors, the NIFC and NIDA, had no responsibility for the provision of industrial premises, but the philosophy behind the establishment of the IDB was that all industrial development functions would be amalgamated in one organisation. However, the acquisition and construction of industrial property has not proved to be a high priority for the IDB. In the three years following its establishment in 1982, it constructed only 42 units, with a total floorspace of 4.9m sq. ft.[63]. Partly as a result of this, and of the continuing "drive towards privatisation"[64] which has involved the disposal of a larger number of units to private sector buyers, the IDB's factory portfolio had, by March 31, 1985, been reduced to 592 units, or 18.3 m. sq. ft.[65], a reduction of 11% from the floorspace inherited in 1982. The IDB 1984/5 Annual Report noting that a 'major review of IDB landholdings throughout Northern Ireland has been taking place during the year' added that 'it has been apparent for some time that the existing portfolio exceeds the IDB's anticipated requirements'[66]. It is, however, difficult to make any independent judgement on the effectiveness or otherwise of the IDB's factory provision function, as the government does not require that the Board meet a public financial target for return on its factory holdings, and no figures are available concerning the numbers employed in IDB-owned factories.

The HIDB's factory portfolio, at 31 March 1984 amounted to 1.12m sq.

ft. of floorspace, 26% of which was, at that time, available for letting[67]. Figures relating to the number of units owned by the Board were not made available for this period, but, at March 31 1983, the Board had been in possession of 265 units[68]. Vacancy rates for Board property, as at 31 March 1984, varied widely from one region to another; ranging from 82% of HIDB-owned floorspace in Nairn, to only 4% in Caithness[69]. In 6 of the 19 administrative regions in which the HIDB had property holdings, vacancy rates were over 25% of available floorspace[70]. A feature of the Board's property portfolio, reflecting the nature of economic development in the region, is the preponderance of small industrial units. At the end of March 1983, over 70% of the units owned by the HIDB were of 500 sq.m (5,382 sq. ft.) or less in size[71]. For many years, the Board did not measure its factory-building function against any commercial criteria, in the light of the complete absence of private sector activity in this area, but the government introduced financial targets, similar to those under which the WDA and SDA operate, on 1st April 1984[72].

At 31 March 1983, the DBRW (MWD) had under ownership 1.99m sq. ft. of factory space, consisting of 292 units[73]. 38 of these units, representing 13% of the total, were, at this time, untenanted[74]. 34.2% of the floorspace, 0.68m sq. ft., and 33.6% of the units were located in Newtown, the largest centre of population in the Board's area[75].

The employment effects of the factory-building programmes of these other UK agencies are not easy to determine, owing to lack of statistical evidence. In areas such as the Highlands and islands of

Scotland, moreover, the provision of industrial premises does not form as important a part of economic development work as it does in, for example, the industrial valleys of South Wales. As has been already noted, the IDB does not disclose figures relating to overall employment in its factories. According to figures published in the DBRW (MWD) 1982/3 Annual Report, however, employment in premises under its ownership has increased by 16.7% over four years, from 4479 in March 1979, to 5351 in March 1983[76], the latter figure representing an employment density of 2.7 workers per 1000 sq. ft. of floorspace. At 31 March 1984 the HIDB claimed to have employed in its industrial units a total of 1976.5 staff[77], its calculation having translated figures for part-time employment into full-time equivalent. On this basis, employment density represented 1.8 workers per 1000 sq. ft. of floorspace.

Indications are that, following a period during which factory-building dominated other economic development activities, UK agencies are now pursuing policies of review and retrenchment in relation to the function. The SDA carried out a review of its property function in 1983. The IDB and WDA have recently taken similar action, and in each case, the result has been the direction of resources towards the provision of made-to-measure bespoke factories in the context of an overall decline in the number of units built. This policy has been pursued in conjunction with the disposal of significant amounts of property to the private sector. In 1984/5, for example, the SDA sold off 2.1m sq. ft. of premises, which represented approximately 9% of its total portfolio[78]. In the same year, the WDA constructed 432,000 sq. ft. of factory space in the form of 58 advance factories, bespoke units and modernisations, when in 1981/2 it had constructed 2,731,000 sq. ft. of factory space, consisting of 456 units[79]. As was pointed out at the time, this was considerably in excess of one unit for every day of the year. The pattern of the WDA's factory-building programme over the first ten years of its operations can be seen in full in Figure 1.

The agencies do not make public the criteria by which they choose sites for the establishment of industrial premises "in advance of demand", advance factories. Development has, in the past, been targeted on specific areas, either as a response to a government directive, as in the case of the WDA crash programme of factory-building at the site of steelworks closures in Cardiff, Ebbw Vale, Newport and Port Talbot, or as a consequence of an agency initiative. The SDA's programme of Area Projects, for example, had by 31 March, 1985 led to the construction of approximately 2.6m sq. ft. of industrial property in the areas chosen for development[80]. Similarly, in Mid Wales, Newtown, the industrial centre of the area covered by the DBRW (MWD), has accommodated a large proportion of the Board's factory-building programme. This reflects not only the Board's special statutory responsibility for the town, but also its place at the hub of the growth-pole strategy on which the Board bases its activities. As noted briefly above, factory construction cannot play an identical role in the diverse regions served by UK agencies. Whilst the construction of speculative factory developments in areas of high unemployment, as an attraction to both new and expanding indigenous firms, and relocating external firms, represented a major plank of traditional regional policy in urban areas of Scotland and

Wales and was therefore enthusiastically taken up after 1975 by both the SDA and WDA, it is of less significance in the rural areas served by the HIDB and DBRW (MWD), because of the improbability of attracting 'footloose' investment to these regions, and their lower rates of economic activity.

Table 5

Summary of agencies' industrial property holdings

	Year-end	Million Sq. ft.	No. of units	%vacant[1]
SDA	1984/5	21.8	2,693	23.3
WDA	1984/5	20.1	1,575	18.0
IDB	1984/5	20.5	635	
HIDB	1983/4	1.1	265	26
DBRW (MWD)	1983/4	2.0	292	13

[1] = % of total sq. ft. vacant and available for letting.

Sources: Annual Reports, and information provided by the agencies.

Table 6

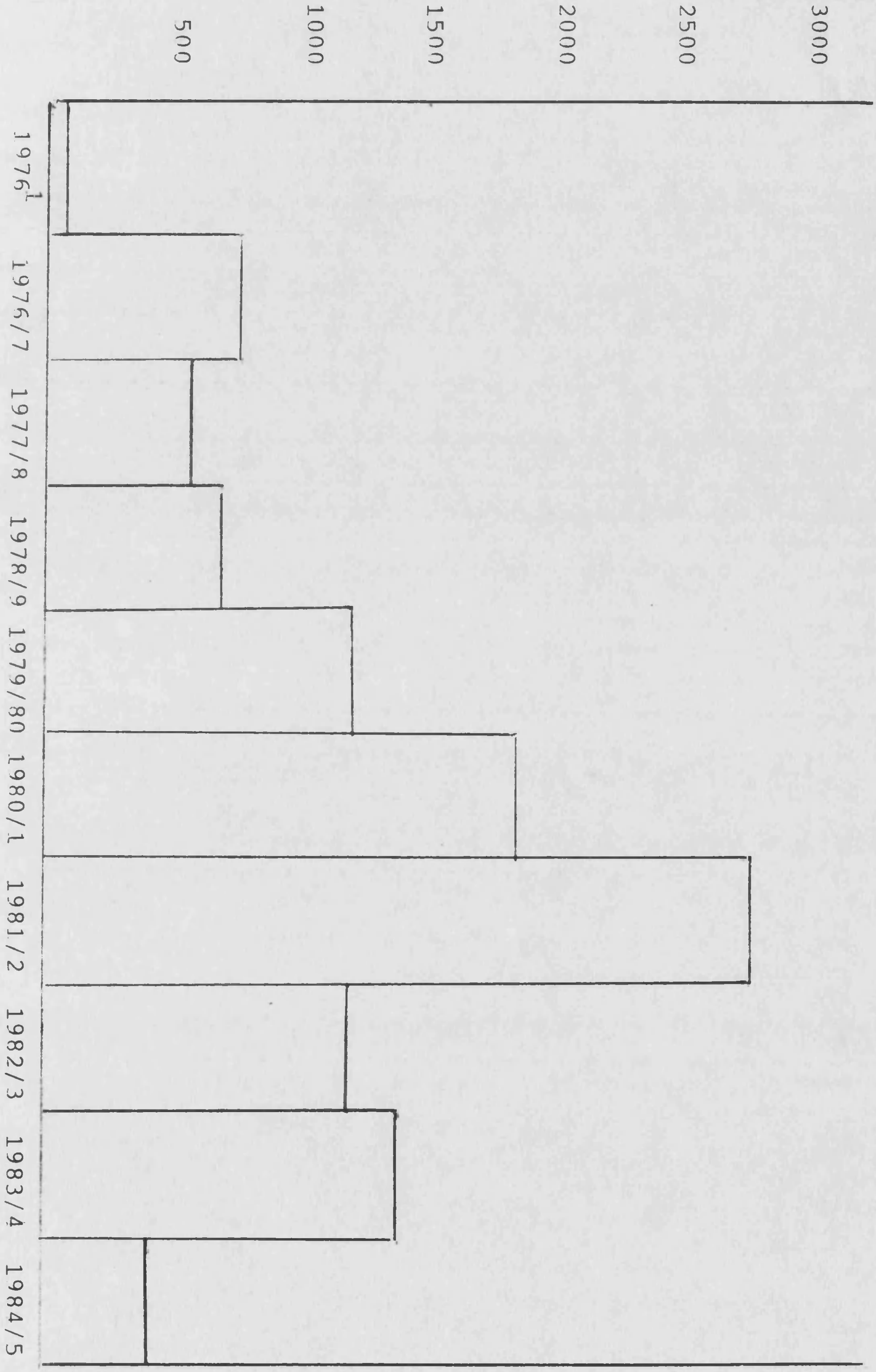
SDA and WDA - factory tenants by numbers of employees

	SDA		WDA	
No. of employees	No. of tenants	% of total	No. of tenants	% of total
1-50	861	83.9	556	78.4
51-100	70	6.8	63	8.9
101-500	73	7.1	83	11.7
501-1000	11	1.1	4	0.6
1000+	11	1.1	3	0.4
	1026	100.0	709	100.0

Sources: Information provided by the agencies

Fig. 1

WDA - Factory-Building 1976-1985
(by sq. footage constructed)



1 = 1st 3 months of 1976 only
Source: Information supplied by WDA

At the end of the financial year 1984/5, the Comptroller and Auditor-General qualified the accounts of both the SDA[81] and WDA[82], because of discrepancies which had been revealed between the value of their property portfolios as listed in their accounts, and their estimated value on the open market. At the request of the Comptroller, independent surveyors had valued the SDA portfolio at £166.8m, and the WDA portfolio at £92m (in both cases including in the valuation only completed premises). In the case of the SDA, this was £108m, or 39%, less than the book value appearing in the accounts; in that of the WDA, the difference was £223m, or 71%. The disclosure of this massive gap between estimated and actual value illustrated the 'creative' aspect of drawing up accounts for public bodies such as the agencies, and indicated the depressed state of the industrial property market in many of the areas in which they are active. More importantly, however, it emphasised that the agencies' work in this field cannot be adequately measured by financial criteria alone, a point which has already been made in relation to the investment function. The independent valuation showed that the large amounts of money (making up the biggest single share of agency budget) expended over time on the acquisition and development of industrial sites have not created a factory stock of equivalent value. A commercial rate of return cannot be expected on these activities, unless they are confined to areas of high demand (such as the South Wales M4 corridor, or the Scottish 'Silicon Glen'). Activity outside these areas, where the public sector provides the facilities where the private sector will not, has to be judged in terms of employment created. This is a calculation which neither the government nor the agencies themselves have adequately addressed.

Job Creation

Neither the SDA or WDA have ever made it their practice to set targets for job creation, or issue figures concerning the jobs which their activities have created, other than those related to individual projects. In the WDA's Statement of Policies and Programmes, published in January 1977, it was stated that 'the WDA do not consider that it is possible to set targets for themselves in terms of such measures as overall levels of employment, or environmental quality in Wales'[83]. It went on to argue that 'the Agency's programmes will, of course, make a major impact on employment. The magnitude of the employment which will be created or maintained cannot be precisely forecast since it will depend both on the type of industry which responds to the available opportunities and on the general level of economic activity in the UK as a whole over the next five years'[84]. However, such statements did not prevent the Agency from claiming in 1981, in its publication 'WDA; The First Five years' that its factory-building activities between 1976 and 1981 'had helped to create 11,000 jobs'[85] and that investment funds were expected at the time of investment to create 3300 jobs. An example from the 1984/5 WDA Annual Report demonstrates the vague nature of the Agency's published remarks concerning jobs "...29 companies.... announced their intention to set up projects in Wales costing £59m, and producing 2650 jobs. Another 1000 jobs are due to be created and a further 2450 safeguarded as a result of expansion projects announced by overseas firms already established in Wales"[86]. Similarly, 'a record total of 148,000 sq.m (1.59 sq. ft.) of space in WDA factories was occupied by 242 companies, which were forecasting the creation of nearly 5100 jobs over the next 3 years'[87]. Unfortunately, the WDA does not, in its published material, follow through these job forecasts over time, in order to analyse how many of the predicted jobs are actually created, and there is evidence to suggest that the Agency's figures have been in this respect, unreliable. For example Aled Eurig in his analysis of the Agency notes that 'job figures given by the Agency for those employed in the Agency's advance factories have been at best confusing, at worst downright misleading'.[88] He goes on to allege that the number of new jobs created by the WDA advance factory programme between 1976 and 1981 was approximately 4,000.[89]

As noted above, the SDA has maintained a policy in relation to jobs similar to that of the WDA, though, in 1983, it abandoned traditional practice by citing job creation estimates in its Corporate Plan which suggested that the Agency's activities would create 33,600 jobs between 1981/2 and 1984/5. However, these projects are funded not by the SDA alone but jointly by a combination of the Agency, local authorities, and, in certain areas, private business. Such job creation as has taken place cannot therefore be attributed solely to SDA expenditure. In addition, two of the projects, at Clydebank and Dundee, operate within ares which have been designated by the government as Enterprise Zones, and therefore benefit from government expenditure in the form of tax exemptions.

By the end of the financial year 1984/5 the Agency had expended £122.8m on seven area projects, in which 12,939 jobs had been 'created and provided for'[91]. However, the total estimated investment both private and public in these initiatives amounted to £888.9m.[92] Like the WDA, the SDA's references to job creation tend to be generalised '1984/5 was the most successful year ever in attracting investment into Scotland by overseas corporations...total prospective investment was over £600m.... which in due course will provide some 7,000 valuable new jobs'.[93]

Interestingly, this lack of clarity concerning job creation figures is not a universal characteristic of UK regional development agencies. At least 3 of the agencies (the HIDB, IDB and LEDU) annually attempt to measure the number of jobs which the activities of their organisation have been responsible for establishing. For example, the HIDB has estimated that between 1974 and 1983, the activities of the Board resulted in the creation of 17,148 jobs (using a method of calculation which translates part-time and seasonal jobs into full-time equivalent) and the retention of 6,400 more[94]. In publishing figures such as these, the Board has nevertheless retained a cautious attitude toward job creation claims. For example, with regard to the question of monitoring job creation, as discussed above in relation to the WDA, the Board has stated that 'it is also important to follow up assisted cases to assess whether projected employment increases did in fact occur'.[95] Board research into cases assisted in 1974 showed approximately 80% of predicted employment actually occurred, and further revealed differences in actual job creation between various sectors of economic activity.[96]

Both Northern Irish agencies, the IDB and LEDU, set targets annually for job creation and publish estimates of jobs actually created which are measured against these targets. Set up in September 1982, the IDB in its 1982/83 Annual Report published nine months later, declared that 'its objectives should be challenging yet attainable'. Consequently, the IDB announced that one objective would be to increase job promotions from 3500 in 1982/3 to 10,000 by 1985/6, with an immediate objective of 5000 job promotions in 1983/4, of which 3000 were expected to come from home industry, and 2000 from inward investment.[97] By the following year, in its 1983/4 Annual Report, it was publishing figures for jobs promoted, renewed and maintained, classified by geographical location and economic sector.[98] It thus splits job creation figures into three categories: jobs promoted, a category which takes into account the discrepancy between the projected and actual number of new jobs created; jobs renewed, defined by the IDB as employment related to any substantial initiative financed by the Board to preserve employment seriously at risk, and jobs maintained, employment related to finance given by the IDB where no other substantial initiative has been possible. The Board has, so far, had varying success in meeting its job creation targets, which relate to job promotions alone. After having achieved 3791 promotions in its first year of operation (1982/3) against a target of 3500, the number of promotions fell in the following year (1983/4) to 3556 against a target of 5000. The target for the year 1984/85 was accordingly revised to 5250 promotions, and 5267 were, according to the Board, achieved (see Table 7).[99] It seems unlikely, given these figures, that the Board's original target, outlined in its first Annual Report, of 10,000 job promotions in the year 1985/6 would be achieved.[100] It is interesting to note that the IDB is alone amongst UK agencies in publicly setting itself targets for job creations, figures which are often used by politicians and economists as a source of criticism of its activities.

In the first ten years of its existence LEDU claims to have promoted 11,180 jobs.[101] In 1981 the government expanded LEDU's remit to include the deprived urban areas of Belfast, and also the service sector of industry, and set it a target of 12,000 job promotions between 1981 and 1986.[102] In addition to this LEDU has since 1981 set itself annual job promotion targets. In an interesting justification of this policy its 1984/5 Annual Report stated that 'against a background of difficult economic conditions and rising unemployment the Agency set itself increasingly higher job targets which in the four years since 1981 have been met and indeed exceeded. The formulation of this ongoing strategy with the commitment to achieving job targets has helped to create a sense of challenge among the LEDU Board, Area Panels and the Staff. It has also led to a more effective use of LEDU's resources and the introduction of a number of new job creating initiatives.'[103] During the four year period 1981-85 LEDU claimed to have promoted 11,830 jobs, only 170 short of the government's five-year target.[104] (See Table 7).

Table 7

	IDB		LEDU	
	Target	Jobs promoted	Target	Jobs promoted
1981/2	-	-	1500	1613
1982/3	3500	3791		2550
1983/4	5000	3556	3100	3658
1984/5	5250	5267	3850	4009
		12614		11830

Source: IDB and LEDU Annual Reports

Cost-per-job estimates

In recent years, those academics involved in the study of government regional policy measures have increasingly turned to the use of calculations estimating the cost of each job created through such measures.[105] This type of analysis has however, been criticised for its inherent lack of precision, and may not be an ideal method of evaluating the work of regional development agencies. On a general level, it has been argued by certain of the agencies that they are not primarily job-creation agencies. For example, Aled Eirug, in his study of the WDA, quotes a senior member of the Agency's staff as stating that 'Our investment, of course, is not intended as such to create jobs.'[106] Secondly, such measurements cannot reveal the nature, security or longevity of the jobs created, and as a consequence, may tend to emphasise the creation of short-term, low-cost jobs, rather than relate the agencies' work to their respective regional economies in total.

In addition, there are difficulties in making the necessary statistical calculations with accuracy. One common problem is found in determining the expenditure to be included in the calculation. It could be argued that administrative overheads, and expenditure on functions such as promotion and publicity, land reclamation and small business advice, which have no directly measurable return in terms of job created should be excluded. Similar arguments can occur in relation to the number of jobs to be calculated against costs. For example, if an agency supplies 20% of the start-up capital for an invested firm, it could be suggested that only 20% of the jobs created by such a project could accurately be ascribed to the agency. Additionally, as has already been shown, those agencies which have produced job creation figures have calculated them according to a number of different categories - jobs promoted, retained, renewed, maintained or saved, and decisions have to be made as to which should be included in the cost/job equation. Certain bodies which have used cost-per-job figures to evaluate their economic development activities such as Sheffield City Council and the Greater London Enterprise Board (GLEB) have reasoned that calculations should be made not in terms of jobs created but job-years created, a definition which takes into account the fact that jobs created by the agencies may only exist for a limited duration, and allows for the inclusion of part-time and seasonal work.

However, as has been shown in the past, it is evident that differences do exist in the costs of job creation between the various instruments of regional industrial and economic policy. The difficulties of measuring such figures, some of which have been outlined above, have not prevented claims and comparisons being made on this basis which could have significant effects on the future direction of government policy. For example, John Benington, in an article in Local Economy, the journal of the London Economic Policy Unit (LEPU), claims that the average cost per job for employment created by local authority-sponsored enterprise boards is approximately £5000, whilst the equivalent figure for government regional assistance is £32,000 and that for employment created in government Enterprise Zones is £68,000.[107] In the light of such claims, it is clear that even a general estimate of cost-per-job figures for regional development agencies would be of interest. Therefore, a broad calculation has been made, using job-creation figures supplied by the agencies, and calculating them against total agency expenditure during the period in which the jobs were created. Only jobs created or promoted were included in the calculation, other categories being discounted. It was possible to make calculations in respect of three agencies only (the WDA, IDB and HIDB) and for two of these, expenditure figures have not been corrected to allow for changes in prices over time.

Notwithstanding the qualifications made above, the figures appear to indicate (see Table 8) that regional development agencies are capable of generating jobs at less cost than traditional regional policy measures. If figures for jobs retained or maintained were to be included in the calculation, then the cost per job average for both the WDA and the HIDB would be reduced to a rate broadly comparable with recent estimates of the cost to the state of maintaining an unemployed person.[108] Indeed, the Chairman of the HIDB claimed in the Board's 1983 Annual Report that the average cost of retaining or creating a job to the HIDB was actually less than the cost to the state of maintaining, an unemployed person, though he did not substantiate the figures used. However, as referred to above, the cost-per-job figures claimed for the regional enterprise boards established by the metropolitan authorities are smaller than those of the regional development agencies for which it was possible to make a calculation. For example, a 'job audit' carried out during 1984/5 by independent consultants, Thornton Baker for the Greater London Enterprise Board, found that, as of 31 December 1984, the cost per job created by GLEB investments, including job targets to 31 December

1986, and a proportionate share of overheads, was £3,624, on the assumption that the investments would realise only 50% of their cost.[109] Similarly, according to an article in the Financial Times of 6 May 1986 the West Midlands Enterprise Board has claimed that the jobs it created in 1984/5 cost an average of £2071 each. With limited resources, and operating under local control, the boards have concentrated on projects with direct benefits in terms of job-creation.

Table 8

Cost-per-job estimates

	Years covered	Expenditure (£m)	Jobs created	Cost per job (£)
WDA	1976-81	164.0[1]	14 300	11 469
IDB	1982-85	238.3[2]	12 006	17 579
HIDB	1974-83	175.8[3]	17 148	10 251
LEDU	1981-85	42.8[4]	11 830	3 168

1 = expenditure on industrial investment, factories and industrial estates.

2 = total expenditure on all functions.

3 = expenditure on grants, shares and loans.

4 = expenditure on administration, loans and grants.

Geographical aspects of performance

One aspect of the agencies' performance which has not been covered extensively in previous studies, and which nevertheless merits analysis, is the geographical distribution of their resources. The statutory remits of the agencies tend to address the regions for which they have responsibility as single entities, and refer to subregions only in general terms. For example, the Welsh Development Agency Act 1975 cites the WDA's first statutory purposes as being 'to further the economic development of Wales or any part of Wales'.[110] However, unemployment rates, and other measures of economic deprivation are not uniform across the regions, and pressures consequently exist for agencies to allocate resources to certain specified areas within the regions across which their responsibilities extend. It is therefore, of some importance to note how the resources of the agencies, particularly as reflected in their investment and factory-building programmes, are distributed within their respective regions.

Certain of the UK agencies have made explicit their prioritisation of specified areas. For example, one of the HIDB's 'key board policy objectives' is that 'the Board give special attention to and inject a higher level of assistance per head of population into the more remote and socially fragile areas in the islands and peripheral mainland areas'.[111] A second objective is that 'special attention' should be given to areas which, because of major industrial closures, have become major unemployment blackspots.[112] The DBRW (MWD) also have publicly-announced criteria by which resources are allocated, though these are in direct contrast to the objectives of the HIDB in that they comprise a 'growth pole' strategy which has been propounded by the DBRW (MWD) since its inception in 1977.[113] (the HIDB's published objectives 'reject the adoption of any rigid strategy based on concentrating investments in growth areas and key settlements.)[114] This involves the concentration of resources on a limited number of growth areas, 'special' towns, and 'key' towns and villages. The SDA does not publicly espouse geographical priorities for its investment, but its support for area projects has, it would appear, introduced an element of discrimination by location into its activities, as limited resources are increasingly channelled to specific areas. Similarly, the WDA does not publicly give priority to locations within its region, except when specifically directed by central government as was the case with those areas affected by the run-down and closure of steel plants in the late 1970's and early 1980's. However, its 5 year Corporate Plan, published in July 1984, identified three types of area to be assisted within Wales: prime sites, such as those bordering main roads like the M4 and A55, outer urban areas like the industrial valleys of South Wales, and rural areas.[115] The Plan suggests that differing methods of assistance should be applied to these distinct areas, or, as the then WDA marketing director Alan Sutton described it: 'this means the agency has a different policy for different parts of Wales. We have a social policy and a market policy, and we have to find a route between them'.[116] Such ideas complement remarks made by WDA Chairman John Williams in 1983 in outlining the Agency's policies to the Financial Times that 'what we want are sunrise industries, and we would like to house them in a triangle formed by Cardiff, Abergavenny and Chepstow. They would be near to the M4 and M5 motorways, and close to London'.[117]

Having noted the differing geographical perspectives of the agencies, it is necessary to consider next the evidence concerning the actual distribution of their resources. Unfortunately, as with many of the agencies' activities, there are few published statistics covering this aspect of their performance. Moreover, compiling statistics from raw data can be complicated by the agencies' use of differing, often undefined geographical units in breakdowns of statistics concerning investments and factory construction (these being the two functions of the agencies which are most amenable to measurement on a subregional basis). An exception to this rule would appear to be the HIDB, which, presumably, as a consequence of its long-stated commitment to prioritise assistance to certain of the most deprived parts of the Highlands and Islands, has always published a geographical breakdown of its expenditure. In the Board's first Annual Report, the then chairman, Robert Grieve, stated that the success of the Board would ultimately be judged on its ability to stem the depopulation of the seven crofting counties, and this subsequently gives a geographical aspect to the Board's work, which did not apply, to the same extent, to other agencies. Breathnach et al. in their 1984 report on the HIDB's community co-operatives made reference to the Board's geographical distribution of expenditure, finding that the Board's 'sub-regional development priorities over the last decade'..'show a degree of spatial variation, with the figure for the most favoured region, West Ross, over seven times that of the least favoured region, Nairn. In general,' they state 'inaccessible peripheral regions are most favoured, and central regions (Moray Firth, Great Glen) least favoured..'.[118] Breathnach et al. also studied the geographical distribution of jobs created and retained through Board assistance and concluded that it followed closely the pattern outlined above.[119]

Similarly, the DBRW (MWD), with its explicit growth pole strategy provides annual geographical breakdowns of its factory-building programme, and its grant schemes. Not surprisingly, the town of Newtown, which represents the focus or growth centre of the strategy, absorbs a large proportion of the Board's resources. For example, 33.6% of the Board's factories as held on 31 March 1983 were located in Newtown, constituting 34.2% of floorspace owned by the Board,[120] though the population of Newtown accounts for only 4.5% of the total population of the DBRW (MWD) area. The concentration of resources upon Newtown and its environs is also reflected in the distribution of factory units and industrial floorspace across the five local authority areas which fall within the DBRW remit. Montgomery, the authority which includes Newtown contained, at 31 March 1983, 41.4% of Board factory units, which constituted 49% of its total floorspace,[121] although it accounted for only 24.1% of the population of the DBRW (MWD) area.[122] Conversely, Ceredigion, with a population which makes up 28.7% of the DBRW (MWD) total,[123] and sharing with Meirionydd the region's highest unemployment levels, had within its boundaries, at 31 March 1983, only 18.8% of the Board's factory units, and only 10.1% of floorspace.[124] In describing these figures it is not intended to make criticism of the policy of the Board or the other agencies here described. Taking the above case for example, it could be argued that a completely equitable distribution of factory construction proportionate to population is neither achievable nor desirable. In deciding where to build advance factory units, other factors must be taken into consideration, which could include, for instance, the amount of existing industrial property in the area, the extent of existing manufacturing activity, the level of local unemployment, and the amount of land available for industrial building. Furthermore, the Board has publicly stated that its factory-building programme follows closely its previously announced Board Strategy,[125] which represents a list of geographical priorities for the area, and consequently implies an uneven distribution of resources. In setting out the figures, it is merely intended to point out that such uneven distribution does occur, and that it is a corollary of the agencies' activities which has previously passed unremarked. Furthermore, it is important to recognise that this uneven distribution of resources is characteristic of all agencies, not only those whose activities are carried out according to a publicly enunciated geographical strategy.

As noted above, the WDA has only recently, with the publication of a Five Year Corporate Plan, made public reference to the role played by geographical criteria in determining the allocation of its annual resources.[126] However, figures taken from the 1981/2 and 1982/3 Annual Reports of the agency, which analyse the amounts of investment finance approved by the Agency by counties, show certain areas, such as West Glamorgan, Clwyd and Dyfed, receiving consistently low levels of assistance. Disparities can be particularly pronounced. For instance, in 1981/2, investment per head in West Glamorgan was £0.64p, compared to £8.75p in Powys. Unfortunately, figures issued by the Agency relating to its factory portfolio are not classified on a county basis. Instead they are subdivided into the 8 areas served by the WDA's regional offices. On this basis the areas centred on the

Swansea and Carmarthen offices, which contain respectively 1,742,000 sq. ft. and 1,329,000 sq. ft. of WDA-owned industrial floorspace can be contrasted with those areas associated with the offices at Hirwaun and Treforest, which possess respectively 4,340,000 st. ft. and 4,265,000 sq. ft. of floorspace.[127] Disparities of this size in the scale of factory construction can only be partly explained by the comment in the Agency's 1977 'Statement of Programmes and Policies' that 'the WDA will tailor the scale, type and location of advance premises as closely as possible to the circumstances of the various parts of Wales'.[128] As Eurig, in his study of the WDA, has noted of WDA advance factories 'the nature of their geographical distribution is particularly striking in their relation and proximity to the major communications routes, the M4, A465 and A55'.[129] He takes up this point from Cooke who has argued that 'the location policy of the WDA is governed by the needs of capital for good inter-regional linkages to supplies and markets. Further, given that the major locations of unemployment are not closely related to these routes, except for the ex-steel communities, then most WDA-inspired locations pay relatively less attention to the needs of local communities than is the case with forms of complementary investment'.[130]

Similar trends can be extrapolated from the relatively small amount of published information relating to the geographical distribution of SDA activity. For example, of the 98 investments, comprising 101 industrial sites, details of which were provided by the SDA for this research, 50 of the sites (49.5% of the total) were located in Strathclyde, whilst at the other extreme, only one site was located in Grampian.[131] Likewise, figures made available relating to the SDA's factory portfolio show that whilst the SDA owns 132,408 sq.m of industrial floorspace in Strathclyde, consisting of 261 factory units, it owns only 15,862 sq.m, comprising 59 factory units in Grampian.[132] In an article published in the Scotsman newspaper in January 1985, Alf Young drew up a table of SDA investments (defined to include mortgages, site loans, shares in and loans to large and small businesses, and Leg-Up loans) by parliamentary constituency at the end of 1984, and cross-tabulated it by unemployment rate and the political party holding the seat.[133] He found that 'only ten of the top twenty are Labour-held, in spite of Labour's electoral dominance in Scotland as a whole, and its virtual monopoly of unemployment black-spots..'. He concluded that it was 'clear that where the SDA's money goes bears no relation to the size of an area's economic problems...Cash is just as likely to be placed in areas enjoying relative prosperity as in the crumbling industrial heartlands where unemployment is at its highest'.[134]

In Northern Ireland, analysis of the geographical spread of agency resources is particularly significant, because of the need for the industrial development agencies to appear 'even-handed' in their treatment of the Protestant and Catholic communities. A criticism of such agencies in the past has been that by building on existing disparities in manufacturing industry their activities have tended to favour the Protestant majority. It could be argued that these special circumstances are reflected in LEDU's decentralised form of administration, by which investment proposals are channelled through four regional boards. The IDB, by contrast, appears to favour a sector-based approach, the geographical implications of which it has not yet publicly explored. Examination of the IDB's investments in companies trading at 31st March 1985 shows that 50% of the IDB-invested companies based in Northern Ireland are located in the city of Belfast and the county of Down.[135] It could be argued that this merely reflects the concentrations of population in these areas, and their industrialised nature. However in the 1983/84 IDB Annual Report a geographical breakdown of jobs promoted, renewed and maintained by the Board during that year was published[136], which revealed, when cross-tabulated with population figures, considerable differences in job-creation rates. For example, in County Tyrone, 0.817 jobs had been 'promoted, renewed or maintained' per 100 members of the population, whereas in County Armagh the comparable figure was more than three times this level, at 2.536[137]. Unfortunately, in the following year's Annual Report (1984/5) no geographical breakdown of the job-creation figures appeared. One of LEDU's three stated aims is to 'acknowledge in the promotion of small businesses the variations in the rate, level and duration of unemployment as it is manifest throughout Northern Ireland[138]'. As noted above, the agency operates through four area panels, and it publishes annually a breakdown of projects assisted and jobs promoted in each of these areas. Analysis of these figures for the four-year period from 1981, when LEDU was given a countrywide remit, to 1985, shows that over half (50.2%) of the jobs promoted by LEDU during this time were in the Eastern area, with 21.1% in the Southern Area, 16.2% in the Northern area, and 12.5% in the Western[139]. However, this can be explained by the fact that over 50% of the Northern Irish population is resident in the Eastern area, which includes Belfast, Bangor, Ballymena and Lisburn.

As has therefore been shown above, there is evidence to suggest subregional disparities in the distribution of resources by each of the UK development agencies. In certain cases, this can be seen to be the result of publicly-declared policies as for example with the HIDB which prioritizes the historically-deprived region comprising the 'crofting counties', and the DBRW (MWD), which pursues its growth pole strategy. However, elsewhere, the uneven distribution appears to be the result of a lack of concern for or interest in spatial planning, which allows resources to be pulled to economically favoured regions, and to those areas where local authorities have struck up close informal relations with the agency concerned.

External judgements on agency performance

Having considered above various statistical measures of the agencies' performance, in this, the final section concerning the UK agencies, judgements expressed by individuals and organisations external to the agencies will be discussed. These 'external commentators' can be divided into three broad categories: 'official', 'professional' and 'academic'. 'Official' commentators, such as parliamentary committees and government bodies, are of particular importance in terms of the political, and consequently practical, impact of their reports on the agencies. 'Professional' judgements have been made by those involved in the day-to-day activities of the agencies, the representatives of employers, trade unions and local authorities. Somewhat less influential but more profuse are the conclusions of 'academic' commentators, certain of which have been referred to in earlier chapters. These can in turn be subdivided into three distinct groups:

critics of the Left, who have tended to assimilate the agencies into Marxist theories of capitalist development: 'reformists', who accept the agencies' role as instruments of state economic intervention but criticise their policies and modes of operation, and critics of the Right, who view the agencies as constituting an undesirable form of interference in the workings of the free-market economy. Whilst it would be unwise to portray any of these groups as putting forward purely objective assessments of agency performance (for example, their arguments may be designed to substantiate previously declared positions in relation to the agencies) they each contribute to a climate of opinion which may have some influence on future attitudes adopted by government toward the agencies. A useful illustration is the pressure toward rationalising the activities of those bodies involved in the promotion of inward investment in the regions around regional development agencies, which would act as 'one-stop shops' for potential investors. The government's moves towards this policy were sometimes hesitant, but the eventual emergence of organisations such as the SDA's Locate in Scotland (LIS) and the WDA's WINvest, were, it could be argued, prompted by arguments made by 'official', 'professional' and 'academic' commentators alike. However, it is generally difficult to view these different assessments as forming a coherent whole as, bringing to bear varying perceptions of the agency's role on the analysis of their activities, they tend to judge them by different standards of performance.

To take the first example, 'official' commentators, parliamentary committees and government 'watchdog' bodies, have tended to concern themselves primarily with the cost-effectiveness and operational efficiency of the agencies. The House of Commons Public Accounts Committee, which regularly scrutinises the agencies' report and accounts has made recommendations which have led to the introduction of financial measures for the agencies' factory-building and investment functions[140]. They have also been critical of the agencies' handling of a number of separate investment projects, including Scofisco (HIDB), Stonefield (SDA), P. Leiner (WDA) and De Lorean (NIDA/IDB)[141]. These criticisms are contained in reports which were commissioned following the loss of public funds invested in these companies. In February 1985 the National Audit Office published a report on the investment activities of the SDA, WDA and HIDB which was presented as 'a follow up to the examination by the Committee of Public Accounts (PAC) in earlier years'[142]. It concluded 'that, overall, the appraisal and monitoring procedures operated by the bodies had improved generally in accordance with assurances given to the PAC. They had now reached a reasonably satisfactory standard having regard to the nature and size of individual investments, the value of the investment portfolios, and staffing constraints...'[143].

For its first-ever report, the House of Commons Select Committee on Welsh Affairs chose to study the role of the Welsh Office and 'associated bodies' in developing employment opportunities in Wales, a remit which led it to consider the WDA[144]. The report, published in 1980, was noted for its warning that continuing high levels of unemployment in Wales could lead to severe social unrest[145], but it also made a number of recommendations concerning the WDA, including that the Agency should take over the overseas promotional work of the Development Corporation for Wales, that the target rates of return on investments be lowered, and that more resources be made available for advance factory construction[146]. Published in the same year, a report by the House of Commons Select Committee on Scottish Affairs on the promotion of inward investment in Scotland provoked political controversy by recommending the closure of the SDA's promotional offices abroad[147]. It argued that the offices constituted an unnecessary duplication of facilities already provided by the British Foreign and Commonwealth office. The recommendation was not supported by the government (See Chapter 3).

In general, the standard and frequency of parliamentary reports concerning regional development agencies has reflected poorly on the system of parliamentary accountability upon which they are based, for, with the exception of the Committee of Public Accounts, scrutiny by Westminster has been irregular, and those reports which have dealt with the agencies' activities, have tended to be preoccupied with a narrow concept of financial economy, which is primarily concerned with the safeguarding of public money.

Amongst those most intimately concerned with the operations of the agencies within their respective regions, the local employers, trade unions and local authorities, initial reservations about their establishment appear to have been discarded, as pragmatic working relationships have developed. This was the conclusion drawn from a series of interviews conducted with representatives of the above bodies in the course of this research, and it appears to be supported by the limited amount of published material available concerning the opinion of these 'professional' observers on the agencies.

The regional trade union organisations, the Scottish TUC (STUC), Wales TUC and the Northern Ireland Committee of the Irish Congress of Trade Unions, (NI)ICTU, have consistently argued over the past ten years for increased resources to be made available to the agencies by the government, but they have also supported many of the agencies' activities. In 1980, the then Secretary of the Scottish TUC, James Milne, in oral evidence to the Select Committee on Scottish Affairs remarked that 'the SDA in my view has been a very successful operation. I think it could do more. It needs to be given the resources and to do more'[148]. In the following year, the STUC published a review of the SDA's first five years of activity[149]. The tentative nature of the criticisms contained therein was suggested by the STUC's explanation that the review was 'an introduction to a discussion on the achievement of the Scottish Development Agency' which 'does not attempt to draw any final conclusions'[150]. Its main point of difference with the running of the Agency was that it had 'never had the industrial investment function which was envisaged by the STUC as its principal raison d'être'[151]. This echoed criticism made by the WTUC of the WDA's industrial investment role in evidence submitted to the Select Committee on Welsh Affairs in 1980[152]. The main strand of trade union criticism of the agencies to this day, however, has concerned the scale rather than the nature of their activities. For example the (NI) ICTU, in a paper published prior to the 1983 General Election, called for the doubling of both the IDB's financial resources and its job targets[153]. The paper contended that 'if the Board does no more than make minor adjustments to the previous work of NIDA and the Department of Commerce, we can expect returns of a similar order - minor improvements in the job creation effort!'[154].

Employers' organisations were also predominantly hostile towards the agencies when they were first created, regarding them as facilitating 'back-door nationalisation' through the prosecution of 'politically-motivated' investment policy[155]. However, they gradually became reconciled to the agencies, as the investment role proved to be comparatively insignificant in comparison with functions such as land reclamation and the promotion of inward investment. This process was quickened by the Conservative government's appointment to the Agency boards of men with strong commercial backgrounds, and the imposition of strict financial criteria on the investment and factory-building activities.

Like trade unions and employers' organisations, local authorities were wary of the agencies when first established. It was thought that they would infringe upon the responsibilities of traditional local government organisations, and that they would disrupt planning systems. Interviews carried out during the course of the research, with representatives of local authorities indicate that tensions still exist. Resentment was expressed, for example, about the relative ease with which the agencies can obtain funds from central government, their interest in self-publicity, and their alleged favouritism toward certain areas. It must be stressed that these judgements are subjective, and have not been borne out by published material. Local authorities, whilst critical of the agencies in private, in practice are determined to attract Agency finance to their localities. However, in December 1979, a report prepared for Highland Regional

Council by the Institute for the Study of Sparsely Populated Areas, presented a highly critical picture of the HIDB[156]. It argued that the financial assistance that the Board gave to industry was 'too narrowly defined', that the criteria by which it gave assistance was 'too strictly commercial)[157], and that not enough finance was being given to service industries. In addition, the Board's administration, it said, was 'too centralised'[158] and its lack of contact with firms at the local level meant that the Highland Regional Council had to fill in the gap. In all, it concluded that the Board 'which has a very wide remit and a relatively small budget'[159] was 'too bureaucratic and commercially-minded'[160]. Though the report went far beyond the relationship between the local authority and the Board, it identified two areas of common concern for local authorities in regions served by development agencies, the lack of an overall planning framework within which to co-ordinate the economic development work of local authorities, and the various government-sponsored agencies, and the avoidance of duplicated and overlapping responsibilities in the attracting of inward investment.

The judgements of academic commentators on the performance of the agencies have in part been alluded to in the first chapter when theoretical perspectives of their role were discussed. Whilst the agencies have not so far attracted as much academic scrutiny as have other aspects of regional policy, a body of criticism concerning them has been built up which, for the sake of simplicity, can be divided into three broad categories: marxist/statist, reformist/pluralist and free market.

The first category includes such writers as Philip Cooke, Mike Geddes and C G Morgan, whose view is that regional development agencies are instruments of the state used to restructure the economy in the interests of capital, mediating the effects of government economic policy, whilst at the same time promoting restructuring through diversification and increased productivity. Thus Morgan comments on the WDA: 'Because it is a capitalist development agency in a liberal democracy, and was part of a political debate over devolution, the work of the Agency has had to try to reflect the interests of the pressures that brought about its existence in its contemporary form: with efficiency predominating, since the WDA can, by its very being (including building and investing as an integral part of its being) legitimise the very pit closures or steel shutdowns, or whatever, that its existence depends on'[161].

Given this view of the agencies' role, judgements concerning their performance tend to be generalised. Geddes writes that it 'is difficult to assess the effectiveness of the HIDB's efforts to restructure capital in the region. Clearly, traditional regional policy indicators such as jobs created, cost per job, population and employment trends are not directly relevant while adequate data on regional output, profits etc. is not available'[162]. Believing the agencies' goal to be the reassertion of the supremacy of capital within the regions, he sees that their success is to be measured in terms of the absence of resistance to this process. 'The fact that the class nature of social conflict has been mainly latent and hidden rather than open and active can in part be related to the role of the HIDB in managing and regulating the process of change in order to confine it within safe limits and maintain bourgeois social and ideological hegemony'[163].

A common theme amongst both these commentators and the reformists/pluralists covered below is the tendency for the agencies to make much of their own propaganda. Writing on the first six years of the HIDB's operations, Ian Carter made the remark that 'we should not view the Board as it would like to be viewed, as a thrusting, dynamic combination of action agency on the Tennessee Valley Authority model, but rather as a fairly passive milch-cow'[164]. He argues that the Board claims credit for occurrences that are beyond its control, but concedes that 'it is undoubtedly the case that the HIDB has played an effective role for capital...'[165]. Like other academic writers sharing his perspective Carter effectively criticises the agencies for their success in carrying out what he perceives to be their aim.

By contrast, those commentators who viewed the establishment of the agencies as a legitimate attempt on the part of an interventionist government to faster regional economic regeneration have generally expressed disappointment about the extent of their achievements. Their criticisms have focused on two aspects of the agencies' performance, the carrying-out of their industrial investment function and the scale of funding which they have received from government. Mawson and Miller, for instance, argue that 'the greatest criticisms of the Development Agencies have arisen over their apparent lack of success in the industrial investment field, in spite of the relatively small amount of their budget devoted to this area of activity'[166]. They describe how both the SDA and WDA 'have suffered from the collapse of a number of companies in which they have invested and the rate of return on their investments has been negative and thus well below the targets now set for them. This means that the Agencies have been failing to fulfil two of the aims, safeguarding jobs and yielding profitable investments'[167]. Their conclusion is that the 'Agencies clearly do not have sufficient resources to make any real impression on the scale of problems they are currently facing'[168]. Other writers, who have concentrated their studies on individual agencies, have made similar points. Eurig concludes his study of the WDA by stating that 'whatever its potential, the WDA has made little impact on the underlying problems of South Wales. Its financing programmes have been excessively conservative, constrained by strict, state-imposed criteria ... it has failed to pursue a strategy of integrated economic development and has not been able to provide good quality jobs in the place where they are needed'[169]. Hood and Young whose study of Scottish industrial policy is generally sympathetic to the SDA nevertheless recognise that the size of its contribution to economic recovery is small: '... while agency activities and initiatives are to be applauded, there are many of these which would be made more effective if the industries concerned were the subject of UK strategic thinking. Others are so brittle that one major national decision could destroy years of work at SDA level'[170]. The heart of the criticisms that these above writers make, though often annotated, is that the agencies have not attempted to fulfil the broader role that the government originally conceived for them. This is particularly the case in relation to the SDA, WDA and NIDA/IDB whose genesis was closely connected, as has been shown, to the industrial strategy of the 1974 Labour government, which in turn had many academic proponents (the most notable of which was Stuart Holland). Their critiques are consequently based not on the activities of the agencies, but on the actions that they have failed to take. The equivocal nature of the conclusions drawn from critical analysis of this type is best expressed by Keating and Midwinter, whose study of the government of Scotland includes summaries of the achievements of a number of Scottish public bodies, including the SDA and the HIDB[171]. Posing the question 'Has the SDA been a success?' they reply 'Perhaps not, measured against the promise of Labour's 1974 election manifesto to make it "the main instrument for the regeneration of the Scottish economy... If however, one adopts a more realistic view of what such an agency can achieve, the record is more positive. It has established an entrepreneurial role in Scotland's economic and physical development, intervening selectively and seeking out opportunities, such as those in high-technology industry and area redevelopment'[172]. As for the HIDB, they conclude, in the same manner that '... the Board has not been an unqualified success. However, it is almost certain that without the Board's intervention, matters would have been considerably worse.'[173]

Criticism of the agencies from a free-market perspective, that is one which challenges their role as state-sponsored promoters of economic development, on the grounds that their activities distort competition on the open market between private companies, has not, despite the altered ideological climate of the 1980's, been widespread. In the early years of the SDA and WDA, there was, however, heavy criticism of their investment function by business commentators. For example, in 1979, Bill Jamieson, the City Editor of the Western Mail, in the wake of the collapse of P. Leiner, a company in which the WDA had invested £2m, was led to write that the Agency 'would do well to consider in the light of its investment performance thus far, whether it should be in the business of making equity investments at all'[174]. Criticisms of this type were met by the introduction by the Conservative government of measures which relegated the investment function to a secondary role, to be carried out in accordance with commercial practice. Consequently, as the government found itself able to accommodate the agencies into its radical rightwing economic perspective, so did free or social market economists. Glyn Davies, professor of banking at the University of Wales Institute of Science and Technology has gone so far as to refer to the SDA and Scottish Office as being 'responsible for the creation of an economic miracle' in Scotland[175].

There remain, yet, those to whom the whole concept of interventionist agencies is anathema. The rightwing 'think-tank' group the Adam Smith Institute, in its report on the public sector in Britain ('The Omega File') amply represents this view. This 'comprehensive review of government functions' describes the SDA as 'the embodiment of corporatist thinking that has typified Scottish policy for the last forty years'[176]. Steeped as it is in the 'philosophy... of 1950's regional economics' the agency's operational methods are uncommercial, and its industrial investment function 'a sort of merchant banking service... is a failure, with a poor return on investments. The Scottish people would have been better off if the money had been put into premium bonds'[177]. The report alleges that most of the SDA's interventions are 'superfluous or harmful'. Scotland is not to 'be nursed back to health by the transfusion of subsidies' but by 'a reduction of taxes, and of regulation on companies and on land development'[178]. It concludes 'that there could be consultation with the CBI, the Scottish Council and other voluntary bodies to see if they wish to take over particular SDA functions. For good measure, the report also recommends the winding up of the HIDB, its functions to be assumed by the Highland Regional Council 'The Highlands would lose nothing that exists now. But there would be a gain to the community as a whole in the abolition of a quango containing several full-time members on large salaries, the replacement of a duplicated system of administration, and the transfer of the decision-making process down to a more local and personal level'[180].

As has been demonstrated above, by the differing judgements of academics, government officials, trade unionists, employers and politicians, no consensus has emerged about the performance of UK development agencies since the establishment of the HIDB in 1965. In this respect, the comment of Gwyndaf Williams which referred specifically to the study of agencies such as the HIDB and MWD (DBRW) could usefully be extended to apply to all the agencies covered by this research. Williams' observation was that any 'study of the impact of rural development agencies depends essentially on the evaluation framework adopted - institutional, economic or social'[181].

CHAPTER SEVEN - REFERENCES

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94. HIDB Annual Report 1983 p61.
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CHAPTER EIGHT

Agency performance (Benelux agencies)

Looked at as a group, the regional development agencies of the Benelux countries present greater difficulties in terms of evaluating their performance than their UK counterparts. This is because, as will be shown below, the functions which they carry out are not readily amenable to measurement, being for the most part indirect in effect. For example, of these agencies, only two Dutch organisations, the NOM and LIOF were, at the time this research was carried out, providing equity investment for industry, and this on a much smaller scale than that of UK agencies such as the SDA and WDA. Similarly, only the Belgian SDRB, and to a lesser extent, the ARBED New Industries Department, based in Luxembourg, are active in the provision of land and property for industrial use. Those functions which constitute the staple element of the agencies' activities such as research, the provision of information to small businesses and inward investors, and participation in the structures of regional economic planning, do not produce a directly-measurable return, either in financial or employment terms. Therefore, an evaluation of their performance must either be deferred or take a form even more subjective than that applied to the UK agencies.

Objectives

As with the UK agencies, it is appropriate to commence analysis of the Benelux agencies' performance, with a reminder of the objectives to which they are statutorily committed, the goals against which their activities should ultimately be measured. It is possible to find here the same vagueness or breadth of objective discerned in relation to the UK agencies. For example, the stated aim of the largest Dutch agency, the NOM is simply 'to help improve the social and economic structure of the Northern Netherlands'[1]. The general remit of the ARBED New Industries Department speaks more specifically, stating that its aim is 'to seek to promote the creation of new employment opportunities, and to further diversification of the national economic structure'[2]. By contrast the Law of 15 July 1970 which made provision for the establishment of regional economic development agencies in Belgium did not set out general objectives, but specified aims in terms of tasks to be undertaken, namely the preparation of a study to promote economic development, the preparation of an inventory of regional social and economic needs, assistance in the implementation of the Five-year Plan, and the provision of financial support to approved industrial projects[3]. (It should be noted in passing that only one of these four functions is susceptible to direct measurement).

Industrial investment

As indicated above, the only agencies in the Benelux countries involved in the provision of funds for industry at the time the research was carried out were the NOM and LIOF. However, until 1981, Belgian agencies were, as suggested by the statutory aims given above, able to carry out this function. With the exception of the SDRW, their activities in this field were carried out on a comparatively small scale, as can be seen from Table 1. The industrial investment function carried out by the Belgian agencies has now been transferred to regional investment companies, acting in each of the three regions of the country, and, in both Flanders and Brussels, continuing to liaise with the existing regional development agencies. This process of transfer was not without its difficulties. In February 1981, the SDRW transferred 24 investments to the SRIW, which constituted its investments or 'missions déléguées' held on behalf of the Regional Executive. However, 25 other investments, made from the SDRW's own funds, could not be handed over until 1982, because of a protracted dispute concerning their value[4]. Four of these investments were of over 50% of voting stock, and two were of 20% exactly. The nature of investments, in terms of the type of industrial activity carried out by the investment companies, can be seen in Table 2. This indicated that a high proportion of the investments (28%) were in service-related companies. The majority of these 'service investments' were non-commercial enterprises funded by the SDRW for social as well as economic reasons, such as a company studying the treatment of household waste, and one established for the purpose of attracting tourism to the Ardennes.

Evaluation of these investments by independent experts (experts extérieurs) resulted in a reduction of the book-value of the SDRW's portfolio from BF 392,996,717 to BF 211,536,852, a devaluation of approximately 46%[5]. Partly as a consequence of this, the SDRW recorded a loss of BF 188,219,489 (approximately £23 million) in 1981[6], following on from a loss of BF 181,616,919 in 1980[7]. The agency's cumulative losses at the end of 1981 were running at BF 602,617,875 (approximately £7.3m)[8], and this was after it had successfully called on the government to settle debts which it had built up with the bank Crédit Communal de Belgique in carrying out industrial projects directly authorised by the government, amounting to BF 512,565,422[9].

The SDRW also disbursed loan capital through the CPTEI (Cellule de Promotion Technologique des Petites et Moyennes Entreprises - Unit for the Technological Development of Small and Medium-sized Business). During 1981, the final year for which figures were available for the purposes of this research the Unit lent to 13 companies, and claimed to have created 127 jobs[10]. Six of the 13 investments were classified as being in the mechanical engineering sector, which may be explained by the fact that loans can only be issued for the development of a new product or technological innovation. The total disbursed in loans in 1981 was BF 95.5m[11].

TABLE 1

Belgian regional development agencies - equity investment in 1978.

	No. of invs.	BF.ml.
GOMA	4	65.0
GOMA-L	3	14.5
GOMOV	5	55.0
GOMWV	2	10.0
GOMVB	2	10.0
TOTAL FLANDERS	16	154.5
SDRB	1	50.0
SDRW	16	260.5

Source: Douglas Yuill, 'Regional Development Agencies in Europe'.

TABLE 2

SDRW investments at 31 Dec 1980 by SIC.

Manufacture of office machinery and data processing equipment	
Electrical, electronic and instrument engineering	1
Textiles, leather and clothing	1
Manufacture of paper products and printing	2
Manufacture of metal goods	2
Mechanical engineering	3
Chemical industry	
Metal manufacture	
Processing of rubber and plastics	1
Banking, finance and business services	
Manufacture of motor vehicles, parts and other transport equipment	
Timber and wooden furniture	1
Food, drink and tobacco	1
Coal extraction and manufacture of solid fuels	
Other services, including recreational and cultural	*7
Manufacture of non-metallic mineral products	1
Transport, communication, distribution and repairs	1
Other manufacturing industries	
Extraction of minerals	
Agriculture and fisheries	
Construction	1

* Including five 'non-productive' companies

Source: SDRW Annual Report 1980

As Table 1 shows, the SDRB has played only a nominal role in investment. At the end of 1982, as in 1978, it had only one investment, in Celebor, a company manufacturing medical supplies[12]. As with most matters relating to public institutions in the Brussels area, there were political difficulties concerning the establishment of the regional investment company for the area, the SRIB, and it did not become operational until three years after the two other investment companies[13]. Therefore, when the SDRB made its investment in Celebor in 1981, it was made, according to the SDRB Annual Report for that year 'in close accord with the services of the SNI' (the national investment company). The report added that 'this investment has been made in consideration of the economic and above all social interest which Celebor represents, in the absence of the SRI, to whom the investment will be transferred much later'[14]. According to the Director of Administration for the SDRB, who was interviewed for the purposes of this research in November 1984, there remains provision for the roles of the SRIB and the SDRB to overlap in the field of investment[15], and this appears to be the case with the other Belgian regional development agencies. For instance, the SDRW retained investments in two companies which it managed on behalf of the Regional Executive, after the rest of its 'missions déléguées' had been transferred to the SDRW[16]. Likewise, the Flemish GOM's whose investments were in the main transferred to the GIMV by means of a protocol signed in February 1981, retain interest in a small number of companies. For example, the GOM-Limburg had investment in 1982 in three enterprises[17]; a clothing co-operative, in which it had BF 19.5m of investment, and which made a profit of BF 1.308.567 in 1982; a company formed to develop an exhibition hall in Genk, in which it had invested BF 1.0m, and which lost BF BF 3.030.556 in 1982, and a co-operative set up by the five Flemish GOM's, the Service for the Promotion of Industry, and the Belgian Company for International Investment, to provide financial, industrial and technical reports about potential investments. This company made a profit of BF 442.680 in 1982 but was in the process of being wound up at the end of that year, as a result of the takeover of the GOM's main investment activities by the GIMV.

The investment portfolios of the two Dutch agencies which at the time of this research were providing equity capital for industry, have been referred to briefly in a preceding chapter (Chapter 4). It is more difficult to gauge the financial performance of these investments than to gauge that of the UK agencies' investments because like their Belgian counterparts, the Dutch agencies provide few details concerning costs incurred and returns made on their investments. Keyser and Windle reported that in 1975 the NOM had lost Dfl 1.26m and the LIOF Dfl 0.034m[18]. At 31 December 1979, the NOM's operating loss amounted to Dfl 58m, and[19] by the end of 1982 it had reached Dfl 102m (approximately £24m)[20]. Figures given in the NOM annual report of 1982 indicate that in 1981 the total loss on the NOM's investment portfolio was Dfl 33m on 33 investments (the majority participations losing Dfl 20m and the minority participations Dfl 13m)[21]. In 1982 the loss on 27 investments was Dfl 11.1m (the majority participations losing Dfl 11m, and the minority participations Dfl 0.1m)[22]. The figure for 1982 was considered to be particularly promising, because the loss was accounted for by the writing-off of Dfl 62.5m invested in two companies, Magnesia International and Noordelijke Zoutwinning.

The NOM's experience with its industrial investments is probably best summed up by this extract from the 1980 report, which was printed in an English translation: 'In the seven years that the NOM has been able to offer risk-bearing capital, it once again became clear that it is not a guarantee to get positive results. Many of the firms obtaining risk-bearing capital from the NOM were until now not able to realise positive returns. Starting-up costs went on for a longer period than anticipated and together with incidental losses, the additional capital was partly eaten away. As a result, the NOM often had to finance the venture a second time'[23].

The 27 investments held by the NOM at the end of 1982 amounted to Dfl 120.240m in book-value[24]. Compared with the investment portfolios of UK development agencies, the NOM possessed a far higher proportion of majority shareholdings; 16, or 59% , being made up of 50% or more of the invested companies' share capital. The other regional development agency in the Netherlands which offers investment capital, the LIOF, has, by contrast, majority holdings in only six of its 28 investments, six others being of 50% of voting stock exactly[25]. In the financial year ending 31 December 1983, the LIOF lost Dfl 3.490.000 in investments written off, and the portfolio as a whole recorded a loss of Dfl 2.130.896[26]. In 1982 the loss had been Dfl 1.121.505[27]. It would appear that the comment made by de Wit and Walker in reviewing the investment activities of the NOM applies equally to the LIOF. They suggest that 'because of the risks of equity-financing the NOM may make losses as well as profits. Indeed, there is to some extent a bias towards loss-making since the NOM supports enterprises in sectors in difficulty and takes equity participation in firms which, although economically viable, are experiencing difficulties'[28].

Provision of industrial property and land

In contrast to the position in the UK where all the agencies covered (with the exception of the regional boards of the NEB) have, as part of their services, provided industrial property for both local and incoming investors, in the Benelux countries it is only the SDRB, and to a lesser extent, the privately-run ARBED New Industries Department, which carry out this role. At the end of 1982 the SDRB owned or managed a property portfolio of 94 hectares (consisting of 57 hectares which it had itself acquired, and 37 which it managed on behalf of the Belgian State under the terms of a convention signed in 1975)[29]. According to a review of its activities published by the SDRB in 1982, it had by that time put to use only 35 of the 94 hectares[30]. Figures published in the 1982 SDRB report show that 86,192 sq.m. (or 927,771 sq.ft) of industrial floorspace had been constructed on these sites, and that they were occupied (or in the process of being occupied) by 29 companies, employing 2188 personnel[31].

These figures can be more fully understood in the context of the SDRB's overall land-use policies shaped with reference to its unique position amongst the regional development agencies covered in this study. Unlike those other regional development agencies, the SDRB does not serve an economically depressed or deprived region, but an important industrial, commercial and administrative centre. Land values within this area are at a premium. This is not only because of the lack of land suitable for industrial usage in a metropolitan area of this size, but because of the preference of many of the region's governing communes for residential as opposed to business development. (An aspect of the Belgian system of local taxation is that the local authority received tax revenue from residential but not industrial premises.) There is therefore considerable hostility from certain communes toward the granting of planning permission for industrial purposes for sites within their jurisdiction. As a result, the SDRB has considered it important to build up a stock of industrial land under its ownership or management (patrimoine immobilier régional) to supply the needs of existing and incoming business. Furthermore, unlike agencies in the UK, it has refused to sell off any of this stock to the private sector, preferring to rent property out on a long-term lease.

Because of the shortage of land for industrial development in Brussels, and because of the fact that the SDRB charges its tenants only a peppercorn rent, there is great demand for its properties. For example, during 1982, 71 companies applied to the agency to be located on one of its industrial estates or in one of its industrial buildings[32]. During the same period only three companies were cleared by the Board of Directors to take up an occupancy in an SDRB property. In the light of this level of demand the SDRB is able to select those companies to which it wishes to lease. All tenants have to satisfy strict criteria concerning the number of staff to be employed, the types of jobs to be provided, and levels of environmental pollution, such as noise and waste.

It can be seen, therefore, that a financial analysis concerning the SDRB's performance in the provision of industrial land would not be useful in the context of this research, because it does not operate the function on a commercial basis, utilising only a small proportion (37%) of its stock, and letting it out on long-term leases at nominal levels of rent. In addition, the agency does not publish separate figures relating to its industrial property activities. However, an indication of their financing can be derived from scrutiny of figures setting out the SDRB's initial budget for 1982. These show operating costs of BF 145.290.000 being financed by operating subsidies from the provincial and regional authorities, including a subsidy from the Region of BF 92.711.000 to cover activities relating to industrial property (opérations patrimoniales), and by its own income, which is described as 'essentially the revenue derived from rent', and which is calculated at BF 36.292.788[33]. In the profit and loss account published in the SDRB's 1982 annual report, rent, which is classified under 'other operating proceeds', amounts to BF 24.915.817 in the year ending 31 Dec 1982[34]. It is clear that the costs of acquiring, building upon, and maintaining its stock of industrial land and property far outweigh this level of revenue, and that the function is subsidised by both the regional and provincial authorities.

As noted above, 2188 personnel are employed by tenants of the SDRB in its factories and units which comprise 927,771 sq.ft. of floorspace. This equates to one employee per 424 sq.ft. or 2.36 workers per 1000 sq.ft., a density of employment which is strikingly similar to the figures calculated for the SDA and WDA (see above, Chapter Seven). The SDRB gives no figures concerning the vacancy rate affecting its industrial property portfolio, but, given the comparatively small amount of property which it has constructed and made available to let, and the high level of demand for premises, it can be estimated that it would be most unlikely for there to be any vacancies other than those of a 'frictional' nature, caused by companies vacating as a result of business failure, or the need for renovation work to be undertaken on certain properties.

As was noted in a previous chapter (Chapter Four), at the time this research was undertaken, none of the other Belgian or Dutch agencies provided either industrial land or properties, this function being undertaken in both countries generally by private companies or the local authorities (De Wit and Walker record that in 1980 the NOM did provide a factory for a company wishing to locate in the province of Groningen but emphasise that this was strictly a 'one-off' occurrence[35].)

In Luxembourg, one of the original tasks of the ARBED New Industries Department was to make available to incoming investors the sites and properties which the steel-making company no longer required. However, such stock is not ideally suited to the requirements of the majority of businesses, and the significance of this provision has subsequently been undermined by the involvement of the Luxembourg government in the creation of a number of industrial estates in the area. No information is available on the disposal of property for industrial use by the New Industries Department, but it is noted by Schmit and Walker that both land and factories are available at low cost[36]. However, the limited stock of such property held by ARBED indicates that the role of the New Industries Department in this field is a short-term one, and it cannot, in reality, be usefully compared with that of public sector agencies active in the provision of industrial property in the UK and Belgium.

Other functions

Of the diverse other functions carried out by the agencies none are readily amenable to the sort of statistical analysis designed to produce some quantitive measure of performance. For instance, the Dutch agencies grant importance to promotional activities which aim to attract investment from both outside the Netherlands and from other regions of their own country. According to the LIOF 1983 Annual Report, Dfl 1.027.926, or approximately 14% of its operating costs were directed in that year toward the attraction of investment[37]. The report states that in 1983 eight foreign and five Dutch companies made investments in Limburg totalling Dfl 54m, and creating 225 jobs[38]. Since 1978, it is claimed in the report, 50 companies (25 of them foreign and 25 Dutch) have made investments in Limburg totalling Dfl 293m, and employing 1144 personnel[39]. It is, however, impossible to gauge what part the promotional activities of the LIOF played in attracting these companies, for such locational decisions are influenced by many other factors, such as the availability and size of regional grants, the nature of the local labour market, and the strength of the local infrastructure.

In Belgium, where the SDRB and the SDRW (prior to its dissolution) gave little prominence amongst their activities to the attraction of investment, and where responsibility for this function has, in Flanders, been assumed by a separate body known as FIOC (Flanders Investment Opportunity Council), the agencies are involved in a number of small-scale operations, the effectiveness of which is difficult for the outside observer to measure. An example of this can be found in the 'cellules' or units, referred to in Chapter Four, and operated by Belgian agencies on behalf of formerly the central, now the regional government. These units carry out specific tasks for government, according to fixed-term contracts, and funded by a fixed government grant. The work of these units has centred on research, albeit with specific industrial applications in mind. For instance, the SDRB has managed on behalf of the regional government a unit which has developed an urban heating system for use in residential areas of the city. A similar unit was managed by the SDRW, which also had units researching into the treatment and recycling of household waste, and into reducing the cost of housing construction and renovation. It was originally envisaged that the housing unit would eventually build houses for sale to those who could not afford to buy at market prices, and that through the sales the unit would become self-supporting. However, Hindley and Walker have reported that the houses, built with 'innovative construction materials', 'turned out to be much more costly than anticipated because of their high architectural standard and the choice of site'[40]. The SDRW's Housing Unit was, upon the winding up of the agency, transferred to the Regional Executive, where it continues to operate, under the auspices of a ministerial department. Customarily, the efficiency of such units has been measured by a monitoring committee (comité d'accompagnement) of government officials, and the ultimate arbiter of their performance remained the sponsoring organisation, which upon the expiry of a contract, could decide whether or not to renew it, for what length of time, and with what level of funding.

Flemish GOM's have also taken an interest in social issues such as housing. In the case of the GOM-Limburg work in this field is carried out in conjunction with local housing associations, the responsibility of the agency being to prepare a detailed list of projects and sites to be submitted to the regional executive, in order to receive funds for building. The most part of the GOM's work, however, consists of research, planning, the provision of information and advice, and advocacy on behalf of the region. This type of work is wholly public-funded, and has no direct result in terms of financial return or job creation.

Job creation

Having discerned that many of the agencies' functions are of a type which have no direct impact in employment terms, it is not surprising to learn that, as the majority of UK development agencies, they do not set themselves job-creation targets, nor that job-creation as such does not feature prominently in their annual reports or promotional literature. Such references as do appear tend, as was shown in relation to the UK agencies, to be of a generalised and unsubstantiated nature. In an undated pamphlet, which promotes the Northern Netherlands, the NOM says of itself that 'not only have its efforts preserved or created some 12,000 new jobs but it has salvaged another 5,000 jobs for companies which either needed injections of capital or new management techniques'[41]. Likewise, the SDRB, in a review of its activities from its inception in 1974 to 1982 claims that 'its action in the space of less than eight years has resulted in the creation or retention of more than 3,400 jobs in Brussels, without taking account of the retention of the Volkswagen company'[42] where numerous jobs were saved following several interventions.

In the absence of detailed information to test claims such as these, it is possible only to fall back on the crude method of analysis of comparing the amount expended by the agencies on investment with the number of jobs linked to the invested companies. Industrial investment is the only function where expenditure on that function and jobs associated with the expenditure can be clearly delineated, and as shown above, amongst the Benelux agencies, only two Dutch agencies, and the now defunct SDRW have involved themselves in the function on any significant scale in the recent past. Of these agencies the NOM held, at the end of 1982, investments to the value of Dfl 120.240m in 27 companies employing 3792 workers[43]. This translates into an investment of Dfl 31,709 (or £7,461) per worker. Similarly, the CMPTEI (see above) which Hindley and Walker describe as having 'an excellent reputation both for efficiency and flexibility'[44] made loans worth BF 133.5m in the periods, 1 March 1980 to 1 September 1980, and 1 January 1981 to 31 December 1981 for which records are available. The SDRW claimed that these loans created 176 new jobs, which translates into BF 0.758m or £9,724 per job. If comparisons can be made using such basic methods of analysis, these figures compare favourably with those for UK agencies (see Chapter Seven), the figure for the SDRW being more reliable because it is calculated on the basis of new jobs created rather than jobs in the invested companies, which may or may not have been retained if the investment had not been made.

The above examples have indicated the difficulty of formulating an independent judgement about the performance of the Benelux development agencies. It could be argued that in certain cases, such as those of the Flemish GOMs and the ARBED New Industries Department their roles are so limited that such questions are superfluous. Whilst this would be an extreme view to take of agencies which within their own regions continue to play a role in the industrial development process, it is worth noting that certain of the agencies appear to be becoming increasingly marginal to this process, and that this may in itself give some indication of their relative performance. For example, Schmit and Walker point out that the ARBED New Industries Department no longer takes part in industrial promotion[45], the responsibility for which has been taken over by the government, nor does it disburse financial assistance as it once did, assistance being available from the government, and, as has been referred to above, its provision of industrial property is of less importance now that the government has begun to construct industrial estates. It has also been noted previously that responsibility for the industrial promotion of the Flanders region has been transferred from the Flemish GOMs to the new inward investment body, FIOC. Similarly, the Belgian agencies' function of providing equity capital for industry has been passed on to new regional investment companies. The most striking example of this trend has been the dissolution of the SDRW in 1983, whereby its functions were redistributed to the Regional Executive and the SRIW. Of particular interest is that this action did not appear to have raised any great controversy in the normally volatile climate of Belgian regional politics. The former secretary-general of the SDRW, interviewed for the purposes of this research, indicated that the only dissent arose from the Wallonian trade unions, who were nevertheless pacified by the transfer of the investment function to the SRIW[46]. (Trade unions in the Northern Netherlands had previously expressed dissatisfaction with the manner in which the NOM carried out its investment policy by withdrawing their representatives from its board of directors.)

The splitting up of the activities originally carried out by the regional development agencies, and the increased prominence of monofunctional organisations, such as the Belgian regional investment companies does not necessarily imply greater political control of their functions. Firstly, it might be argued that governmental control would be easier to exercise over a single unified agency. Secondly, evidence of the structure and early activities of the regional investment companies does not suggest that they are under any more political influence than the agencies themselves. For example, when the agencies had responsibility for industrial investment, they carried out a dual role in both making investments on their own account, and investing in firms as directed by the State (missions déléguées). Similarly, other activities, such as those carried out by the Units or 'cellules' were for the most part determined and funded by government. It could be argued that as the SDRW was classified as a 'transitional institution' the SRIW embodied more fully the decentralisation of the power of economic intervention to the Wallonian region. However, in reality, the channels of accountability within the SRIW do not appear to differ greatly from those of the SDRW, with a Board of Directors appointed by a General Assembly, and an Executive Committee, responsible for the supervision of the day-to-day running of the company, nominated by the Board of Directors and appointed by the Regional Executive. It carries out the same dual system of investment, and like the SDRW is given its remit and obtains the bulk of its investment from the regional executive.

A brief analysis of the sectoral composition of the SRIW's two investment portfolios will show that political factors do influence the work of the agency. For instance, 26% of the SRIW's own investments are in high-tech industries, compared with only 5% of government-directed investments, whereas 35% of the government-directed investments are in the more traditional sector of timber, paper and printing, compared with only 3% of the SRIW's own investments[47]. These figures suggest that the government is inclined to intervene more in the interest of preserving jobs in declining industries than in stimulating the development of the more commercially-viable, technology-based growth sectors. Nevertheless, it remains to be demonstrated that this control has been increased since the abolition of the SDRW. A representative of the Flemish regional executive, interviewed for the purposes of this research in November 1984, stressed that the regional investment companies were, in statutory terms, independent companies, and that in the case of the Flemish investment company, GIMV, they were anxious to dispel their public image of supporting 'lame duck' companies, and to see a clear distinction drawn between government-directed and other investments[48].

The creation of the regional investment companies and the dispersal of functions associated with regional economic development amongst a number of organisations, can be seen as an attempt to increase the importance of the industrial investment function in a manner which could not be carried out within the confines of the strict statutory regulations, which govern regional development agencies in Belgium. In this way they circumvented the constraints on financial and staff resources imposed by government. Given the country's history of public funding of regional development, it follows that the regions themselves should wish to expand their use of public investment as an instrument of economic regeneration. Unfortunately, by expanding through the separation of functions, it may be that they will lose some of the benefits that result from the consolidation of industrial development powers within one regional organisation.

Analysis of SRIW according to industrial sector, as at 30/9/84

	Own investments[1] %	Directed Investments[2] %
New technologies	26	5
Timber, paper & printing	3	35
Electronic manufacture	-	4
Aerospace	-	4
Chemical	16	6
Clay, ceramics, earthenware	-	9
Glass	9	11
Machinery & Metal Manufacture	29	20
Food	8	-
Miscellaneous	9	6
Total	100	100

[1] Portfolio of 85 enterprises

[2] Portfolio of 88 enterprises

Source: SRIW Annual Report 1983/4

CHAPTER EIGHT - REFERENCES

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CHAPTER NINE

Regional development agencies in the UK and the Benelux countries - Conclusion

The intention of this concluding chapter is to lay out concisely the main findings of the research detailed above into regional development agencies in the United Kingdom and the Benelux countries, and to follow these with brief remarks about their implications for the future work of the agencies. One of the purposes of the research which has been undertaken for this project was simply to document and describe institutions which have previously received too little academic attention. The second half of this thesis has, however, attempted to move from a descriptive to an analytic mode, and it is to the findings of this section to which most frequent reference will be made.

The field of study

Before reviewing any other of the findings of this research, it should be noted that, at the very least, the topic of regional development agencies has been shown to be an important area of study in its own right. It was stated in Chapter Five that whilst the powers which the agencies exercised might not in themselves be new, the exercise of these powers by a single, unified body in any one administratively-defined region was a novel phenomenon, and the historical review contained in the first chapter clearly places them in this context. In that first chapter, an officer of a Welsh local authority was quoted as stating that their establishment marked 'the death of 30 years of British regional policy.'[1] Yet, in the ten years or more since they commenced operations in Belgium, the Netherlands and the UK, there have been comparatively few academic studies of their activities. Dearlove and Saunders write that 'the available literature on the regional level of the state in Britain is remarkable for its paucity....regional state institutions do exist and are powerful, yet few people seem to be aware of or are interested in their existence'[2]. The extensive series of interviews with politicians, trade union officials, employers' representatives, and academics concerning regional development agencies carried out in the course of this research, served only to confirm this impression. Yet, if only for the reasons of novelty given above, and the fact that not only have regional development agencies, unlike many other instruments of regional economic policy, shown a considerable degree of institutional durability in a rapidly changing and frequently unfavourable political and economic climate but also that there now exist pressures for government to add to their number, they merit continuing detailed analysis.

Diversity

A theme which runs through most of the chapters of this work is the varying nature of the agencies under study. In each area studied, in powers, functions and objectives as in finance, structure and control, differences have been observed. Certain agencies have the power to give grant assistance, others the power of compulsory purchase; some derive their powers from statute, others have powers only equivalent to those of private companies. The Flemish GOM's operate primarily as research bodies, the SDRB as a land bank, and the Dutch agencies as investment companies; only the UK agencies carry out the functions of a comprehensive regional development agency. The objectives of UK agencies tend to be expressed in different terms to those of the Benelux agencies. Budgets available to the agencies are of widely differing sizes, and sources of funding can vary. British and Dutch agencies are governed by boards of directors, the British appointed by the government, the Dutch through the agencies' shareholders, whereas the Belgian agencies are governed by a general assembly of representatives from local authorities, trade unions and employers' organisations. This diversity has previously been noted by Yuill et al[3], as remarked on in the literature survey at the beginning of this study.

Why do these differences exist? In part, they reflect the 'ad hoc' nature of the agencies' establishment, there being no common precedents upon which their creators could draw. However, even in Belgium, a country where the agencies were created under the same statute, they have evolved in different ways, shaped by differing circumstances. Thus, five small agencies were established in Flanders in order to link with existing economic councils, whilst a much larger organisation covered the whole of the region of Wallonia, and in Brussels, the regional development agency combined its functions with those of an 'intercommunale de développement économique', or local economic development council. They also reflect characteristics of government, hence the comparatively centralised nature of the UK agencies, and the decentralised nature of their Belgian counterparts.

As these two examples show, differences can be between both regional development agencies in different nations, and agencies serving different regions within the same nation, though national boundaries are still the most significant factor in influencing the nature of the agencies covered in this survey.

It does not necessarily follow from these findings that such diversity is disadvantageous to the work of the agencies, or that there is any particular virtue in uniformity, in this context. It is not to be expected that an agency such as the HIDB, which has to tackle the economic and social problems of an historically deprived rural area, will be likely to carry out its work in a manner closely resembling that of an organisation such as the SDRB, charged with the task of promoting industrial development in one of the major commercial and administrative centres of Western Europe. Yet, it is necessary to ask the question whether or not it is possible to make meaningful comparison between an organisation such as the SDA, with an annual budget of approximately £100m, and a staff of 700, and the Dutch agency GOM, with an annual budget of approximately £200,000 and a staff of 6.

Common factors

The agencies studied in this research were all established within the space of fifteen years, and the majority in a four-year period between 1974 and 1978. This leads one immediately to consider the possibility of common factors leading to their creation. At least three such factors were identified in the course of the previous chapters. The first was a move toward selectivity in regional policy, expressing a desire on the part of government to move beyond the traditional methods of regional policy, the dispensation of automatic financial assistance to companies locating in a particular region, to a system which, through identification of companies at ground level, would target assistance on particular growth sectors. The second was the common preoccupation of governments with the problems of depressed regions. This became more pronounced during the mid-1970's, as those areas with a limited manufacturing base, such as Limburg, Wallonia and South Wales, became the first casualties of the trade recession induced by the international oil crisis of 1973/74. Following on from this, governments also responded to pressures, primarily electoral, generated by regional or separatist movements within these areas. In Belgium, both the Flemish and Wallonian nationalist parties were involved in bargaining over the formation of coalition governments, and the agencies emerged as by-products of a wide ranging process of decentralisation initiated during this period. Likewise, in the UK, the creation of the SDA and the WDA can, in retrospect, be regarded as the high-point of the political influence of the Scottish and Welsh Nationalist Parties. In the cases of the Highlands and islands and Northern Ireland no immediate electoral threat was presented to the governing party, yet there was a universal recognition that measures should be taken to revive these areas economically. It has already been noted that, on the formation of the HIDB, a government minister referred to the Highlander as 'the man on Scotland's conscience',[4] and in Northern Ireland there has been constant political pressure for a solution to the ongoing civil strife, and the establishment of LEDU, NIFC, NIDA and the IDB can be seen as in part a response to this problem, by which political tensions might be relieved through economic regeneration.

In Chapter Five it was noted that the powers and objectives of the agencies, whether statutory or private in origin were, in the main, generalised and vague. This can be ascribed partly to the lack of common precedent for this type of organisation, which was remarked on above, and also to the lack of planning which had gone into their creation. In the UK, with the jettisoning of the radical economic plans envisaged by the proponents of Labour's National Industrial Strategy, it can be argued that the SDA and WDA were left to define their own areas of activity, or, as was stated in Chapter Five, 'the vague phrasing of their enabling statutes left their mode of operation in the hands of the members, and senior staff of the agencies themselves, or of the Minister and civil servants of the overseeing departments'[5]. In addition, and indeed stemming from this, it is possible to discern a common pattern in the behaviour of the agencies during their early years. The vague nature of their remits encouraged fanciful speculation on the part of those opposed to their creation about the scope of their activities, 'an extension of Bennery in Wales'[6] as the WDA was called, or 'an extension of Socialism in Scotland for Socialism's sake'[7] in the case of the HIDB. It also persuaded the agencies, in response to this type of criticism, to pursue their operations in a manner designed not to offend any of the major conservative interest groups within the regions they served, and thus ensured their political survival.

In the absence of strong directional guidance from other quarters, it is to be expected that in such organisations, the desire to preserve their own institutional framework will assert itself, and be reflected in the promotion of a consensual self-image, and the publicly-advertised pursuit of seemingly value-free goals, such as the 'improvement' of the region, the promotion of 'high-technology' and 'growth' industries, and the attraction of inward investment. Neither is it surprising that agencies should choose to foster a 'technocratic' image of an organisation concerned with the 'modernisation' of the economy, the assisting of technical innovation, and the development of new production processes, because, in the public mind, this tends to set them apart from political controversy, and cultivates a perception of their staff as professionals engaged in non-contentious activity. In more recent years, the need to act in a commercial manner has been used in the same way to remove the agencies from the arena of political decision-making. As stronger links have been forged between these government agencies and the private sector, and senior staff have been drawn directly from the business environment, agency policy has become more cautious, "intervening in the direction of the market rather than against it" in the words of SDA Chief Executive, Dr. George Mathewson[8]. It was noted in the literature survey that Butt Philip has remarked that the agencies' central dilemma consists in the fact that 'politically, these bodies cannot afford to do too little or to lose too much money by trying to do too much'[9].

In apparent contrast to the current trend toward more commercial practices within the agencies, another common factor amongst those agencies surveyed, which has been identified by this research, is their inability to operate without some form of external subsidy.

Despite the government's setting of strict criteria for returns on investments made by the SDA, WDA and HIDB in equity and loan capital, and capital used in factory construction, their results are modest, and the activities continue to rely upon state funding. In the provision of investment for industry, millions of pounds have been lost as a result of the bankruptcy of companies supported by the SDA, the WDA, the HIDB, the IDB, the SDRW and the NOM. In Northern Ireland, the NIDA/IDB lost £17 million invested in the De Lorean Motor Company, an incident which resulted in a special report from the House of Commons Committee of Public Accounts[10]. In the Netherlands, the NOM, founded in 1974, made a positive return on its investment portfolio for the first time in 1983[11]. In Belgium, the SDRW found that the market value of its investments was some £2.3 million, or 46%, less, according to independent experts, than its own estimate, when they were made ready for transfer, to the SRIW in 1981[12]. The property portfolios of the SDA and WDA were similarly devalued in 1985, by 61% and 71% respectively (see Chapter Seven). Even an agency such as the SDRB, offering industrial space for rent in a highly-congested European capital, exists only by way of state subsidies.

As has been shown by the above study, there is ground for argument about the effects of the agencies' activities, and the use which they make of public money, as performance is so difficult to measure, (though it will be suggested below that they represent one of the most cost-effective of regional policy instruments). There may indeed be differences between the successes of the SDA, in regenerating inner-city Glasgow and promoting central Scotland as a focus for high-technology industry, and of the HIDB in the reversal of a century-long process of population decline, and the failure of the IDB to attract investors to Northern Ireland, or of the GOM-Limburg to halt the decline of traditional industries within the region, but common to all their activities is the fact that they do not make money out of them.

This may appear a simple point, but, at a time when the work of the agencies is being increasingly dominated by the need to follow commercial practice, when the Dutch government is reviewing the future of its commitments to the LIOF[13], when the Flemish GOM's are being compelled to operate within the strictest budgetary and staff constraints, it is important that it be accepted. If it was to be accepted by the governments concerned, both national and regional, then the agencies would be able to concentrate upon goals such as employment creation, and the diversification of the regional economic base, without being preoccupied with attempts to recoup expenditure and 'balance the books', attempts which have been shown above to be generally unsuccessful. If it is to be accepted that the aims to which the agencies are working, however loosely they may, in practice, be defined, are worthwhile ones on which public money should be expended, then it is not necessary for there to be great concern when they fail to make a 15% return on investment, or when it is realised that the factories which they have constructed in remote or economically-deprived regions, as part of a public programme of economic redevelopment, cannot be sold at a profit.

Having noted previously the diverse aspects of the agencies under study, four factors have now been outlined which demonstrate that, despite their differences, it is legitimate to consider them as generically-linked organisations. These are the time of and reasons for their establishment, the vagueness of their remits, their need for external subsidy, and their cultivation of a technocratic, non-political image. However, a qualification must here be inserted concerning one of the bodies studied above, the ARBED New Industries Department. Though the New Industries Department has been regularly referred to in the course of the preceding text, representing as it does the closest approximation to the type of organisations which have been the subject of study in Belgium, the Netherlands and the UK, the research has shown that it can be differentiated from them in a number of ways, two of which are of particular significance. Firstly, it is part of a private company, its work being funded by income received by ARBED from other activities, and, as such, is accountable ultimately to that company's Board of Directors. Secondly, its activities, if they are concerned with any objectives other than those of the ARBED company, are concerned with the economic development of Luxemburg as a whole, and of no specific part of that country. There is, therefore, no regional dimension to its work. Though, as has been shown above, it shares certain of the characteristics of the other agencies studied, it cannot be said to come within the terms of the definition of a regional development agency given in Chapter One, namely 'an organisationally distinct body, created by a public initiative, for the primary purpose of encouraging the economic and industrial development of a specified region'[14], and cannot be included in the scope of the conclusions and recommendations laid out during the course of this chapter.

Performance - the agencies' role and efficiency

Brief reference was made in the previous section of this chapter to the question of agency performance, which formed the subject-matter of Chapters Seven and Eight. Despite the problems inherent in measuring performance that were outlined in those chapters, it is nevertheless necessary to make some comment in conclusion on what might be described as the 'effectiveness' of the agencies. Such analysis can often fall at the first hurdle of defining the objectives to which the agencies are working, and against which their performance is to be measured. Certainly, if as their objective one takes the objective of government regional policy, namely the removal of regional inequalities from within the framework of the unitary state, then they have not been successful. If there has been any reduction in overall regional disparities during the past ten years, it has occurred because once-prosperous regions are being reduced to levels of economic deprivation that prompted special government assistance when they manifested themselves first in the traditionally 'backward' regions. In this sense, the HIDB can claim success in that the level of unemployment in the Highlands and Islands has risen by a smaller percentage than that of unemployment in Scotland as a whole, though unemployment in the Highlands has, in the recent past, reached record levels. Similarly, whilst levels of overseas investment in the UK have fallen overall in recent years, the WDA now claims to be attracting a record percentage, 25%, of that investment to Wales. Some commentators, presumably with this in mind, have even suggested that the role of regional development agencies is to make acceptable to the public, or to 'legitimate', the restructuring process which

British capital is undertaking during the recession. For example, in Chapter One, Morgan is quoted as writing that 'the WDA can, by its very being (including building, and investing as an integral part of its being) legitimise the very pit-closures, or steel shutdowns or whatever, that its existence depends upon'[15]. Both views, however, seem to ascribe to the agencies too influential a role in the economies within which they function. In the context of an unfavourable trade climate, and operating under governments which have, for the most part of their existence, pursued deflationary macroeconomic policies which have placed a high priority on the restraint of public expenditure, the agencies cannot be expected to have made a major impact on regional differentials through their own efforts alone. In the context of capital flows in and out of the regions, the budgets of the regional development agencies are comparatively small. A review of the SDA carried out in 1986 by the Treasury noted that though the Agency "has had a substantial and positive impact on Scotland's economy and environment" in the ten years since the Agency was established, Scotland's relative position within the UK economy has remained "broadly unchanged"[16]. In the literature survey, it was noted that Butt Philip had warned in 1976, that little could be expected from UK agencies in terms of new jobs or industries for some years to come[17].

On the other hand, the view that the social discontent which results from mass unemployment and the run-down of traditional manufacturing industries can be dispelled by the provision of a few advance factories indicates an inflated view of the power of the state, and a pessimistic view of the human psyche.

It is the conclusion of this study that the most important criterion upon which the work of the agencies can be judged in the present economic climate is that of the creation and preservation of employment. It is a criterion from which many agencies have, in the past, shied away, indicating that they do not consider themselves to be job-creating agencies, that they are in the business of establishing a climate in which long-term stable employment can be achieved. These arguments are difficult to maintain today as Western Europe suffers the effects of continuing mass unemployment. There need be no juxtapositioning of short-term 'artificial' jobs, designed to boost employment figures, with long-term 'real' jobs which can only be achieved through 'leaner' more capital-intensive companies. The attitude of development agencies to employment creation is contrasted by Moore and Booth with that of enterprise boards where, "there is at least a political statement of intent to exert some democratic control over the way in which enterprises operate, and, in particular, the influence of labour in setting key objectives. Employment, in both quantitative and qualitative terms becomes the primary operational goal."[18]

The agencies' performance should be monitored according to figures which take account of the type of employment created, and its likely duration; one such method has been referred to in Chapter Seven, namely calculating job-years created rather than jobs. Such a system would undoubtedly represent an improvement on the present position in the UK, where the public monitoring of jobs, which was criticised in Chapter Seven, does not appear to extend much beyond the press release which announces each new project. A system of job-targets has been operated by the IDB since 1982, and by the LEDU since before that date, without any apparent adverse effects on either organisation. Indeed, as noted in Chapter Seven, the system has proved a positive spur to the LEDU, which stated in its 1984/85 Annual Report that it had 'set itself increasingly higher job targets which in the four years since 1981 have been met and indeed exceeded. The formulation of this ongoing strategy with the commitment to achieving job targets has helped to create a sense of challenge among the LEDU Board, area panels and the staff. It has also led to a more effective use of LEDU's resources, and the introduction of new job creating initiatives'[19]. There is no reason why the system of monitoring job creation, if not the setting of job as opposed to financial targets, cannot be extended to other regional development agencies in the UK. This would fulfil the recommendations of the 1985 National Audit Office report into the investment activities of the SDA, WDA and HIDB, which called for measures other than purely financial ones to be devised[20]. The Committee of Public Accounts made a recommendation along the same lines in a report later in the same year which concluded that 'in our view the performance of the agencies' and the Board's investment function needs to be measured in terms both of financial duties and statutory objectives. Profitability alone is an inadequate measurement for, as the Comptroller and Auditor General pointed out, the bodies could make investments which were not entirely consistent with their development aims'[21].

To state that the measure by which the agencies should ultimately be judged is employment creation would be perfectly consistent, in the case of regional development agencies such as the SDA and WDA at least with their original aims, one of which was 'the provision, maintenance and safeguarding of employment'[22]. Neither would it be to deny the validity of other measures of the agencies' performance, such as the amount of inward investment attracted, the number of advance factories constructed, and the rate of return on invested companies, merely to emphasise that factors such as these represent differing means to the same end, namely the creation of stable long-term employment within the region. As long ago as 1978, JR Davies whose article on the investment policy of the SDA was referred to in the literature survey, argued that the agency should use its investment policy to pursue social objectives such as employment creation, without aiming for a commercial rate of return[23].

Those measures of the cost involved in employment created by the agencies which can be derived from publicly-available statistics were discussed in Chapter Seven. These, whilst not giving any indication of the extent to which the agencies are fulfilling their job-creating potential, do show that in comparison with other instruments of regional policy currently in operation in the countries surveyed, such as regional investment grants, enterprise zones and freeports, they constitute an inexpensive method of encouraging employment.

Counter to the above suggestion, it could be argued that, as has been shown by the study, many of the Benelux agencies are involved in activities which have no direct job-creating potential, and that the measures of performance discussed above would, in their case, be irrelevant. This is indeed the case at present,and, as the Flemish

GOM's have become increasingly marginalised in recent years, it is hard to imagine a satisfactory method of judging the effectiveness with which they carry out their current tasks, centred as they are, around research and information - provision, planning and advisory services. In a succeeding section, it will be suggested that one of the lessons which can be drawn from a comparative study of the UK and Benelux agencies is that their effectiveness is maximised when they draw together in one structure the various functions of regional economic development.

Political significance

When dealing with agencies which have constituted an active part of regional policy in three major industrialised nations for the past ten years, it is worthwhile setting aside for a while purely economic questions, and asking what positions these organisations occupy in the political process? It was suggested earlier that, in relation to the devolution of economic power, the UK agencies are 'devolutionary only in their inherent regional identity'[24]. Here then is a distinct contrast between the Belgian and, to a lesser extent, Dutch agencies, and the UK agencies. The Belgian agencies were classified by the government as 'transitory institutions' representing a bridging stage in the devolution of economic power to the regions and the transition of Belgium to a federalised state. Unlike the UK and Dutch agencies, they were controlled by the elected regional authority, their day-to-day affairs supervised by representatives of the regional communities. Their activities have, thus, been assimilated into a structure of regional as opposed to national policies.

By contrast, the UK regional development agencies are not accountable to the population they serve, even their relationship with central government is of a nature which impairs democratic control at the national level. Dearlove and Saunders have indicated that the lack of accountability of these agencies is part of a wider problem affecting a range of British regional institutions. Of these institutions they write that 'we are dealing in every case with non-elected bodies....there is no electoral check other than that most tenuous and indirect channel of accountability which runs from the agency to a central department to a minister to Parliament and thence to the electorate as a whole'[25].

The creation of the UK regional development agencies has been referred to as part of a process of administrative devolution, but it could be argued that this strategy was calculated to block any fundamental process of economic or political devolution of power during the mid 1970's. The creation of agencies such as the WDA and DBRW (MWD) in Wales for example, coincided with the transfer of functions concerning industrial development from the Department of Trade and Industry to the Welsh Office. Thus whilst the Labour government was attempting to put over to the Welsh electorate a policy for the devolution of certain executive powers to the Welsh Assembly, it was at the same time consolidating the position of economic development organisations whose responsibility was to central government alone. Hence, there followed a battle by devolutionists and nationalists within Wales and Scotland to place the Welsh and Scottish development agencies under the control of their respective assemblies. As might have been expected, the defeat of these devolution proposals at the polls (or in the Scottish case, their failure to secure the requisite majority amongst the Scottish electorate) have done nothing to forestall the proliferation of regional 'ad hoc' organisations operating through government appointees. As Drucker and Brown have pointed out in relation to Scotland 'at the same time as the political control over Scottish Office functions was growing the government was creating more ad hoc Boards of the type the Scottish Office was meant to replace....there is no doubt that the creation of ad hoc Boards run by appointed members has diluted democratic control over the functions of government in Scotland, giving rise to demands for greater accountability'[26].

As has been noted above, because the industrial policies of the Labour government from which they emerged provoked great hostility from the business community in particular, and because of their association with the NEB, the SDA and the WDA were, in their early years, keen to promote broad acceptance of their activities. They therefore promoted an image of themselves which projected them as technocratic organisations with objectives which could be supported by diverse sections of the community. As this study has shown, however, the agencies do not operate in a political vacuum. They take decisions which have sectoral and geographical implications, they transmit the political philosophies of the governing party, and they make political decisions about the course of their activities. This is summed up by Dearlove and Saunders when they write of regional institutions in the UK that 'these are political agencies charged with making politically crucial and contentious decisions. In most cases, they attempt to disguise this political function through the assiduous cultivation of a technocratic image, but this cannot obscure the fact that they decide how millions of pounds will be spent and that these decisions inevitably reflect particular values which perforce go unchallenged in any open political argument or debate. In the absence of any effective democratic control, they tend to make their decisions according to the influence enjoyed by professional interests within them and/or powerful private sector interests outside them'[27]. When applied to regional development agencies in the UK, this view must be modified, in recognition of the important part that the regional

Secretaries of State play in determining the funding and overall direction of the agencies under their control. However, the general point that the agencies are structured in a way that removes large areas of decision-making from the public domain nevertheless holds true, and is consistent with C. C. Hood's 'political' theory of agency-growth, described in the literature survey, which sees the agencies as means by which the state co-opts support for potentially controversial interventions[28].

To create an ad hoc body for the promotion of economic development is not to remove the necessity to take political decisions on such matters. The process of making these decisions may in this way be removed from the public arena, but the decisions still have to be taken, and they are, in consequence, taken in private by a group of government appointees. As JR Davies remarks, in his study of the industrial investment policies of the SDA 'the role of agencies such as...the SDA and the determination of their social priorities are issues far too important to leave to the professional staff of these agencies. While some degree of operative independence may be necessary for effective commercial decision-taking, there is no justification for the delegation of broad issues of policy'[29].

As remarked in Chapter Six, 'in respect of the substantial majority of regional development agencies under study, effective control of the major aspects of their character rests with government, central or regional.'[30] B.C. Smith in his major study of decentralisation observes that 'the use of special-purpose bodies outside the main structure of government has spread to the subnational level in many contemporary states.... Rather than depoliticising area government, 'ad hoc' appointed bodies merely substitute the politics of the centre for the politics of the area'[31]. Political convention in the UK dictates that such organisations should maintain a show of independence from government, but as has been demonstrated in the case of nationalised industries, despite the cultivation of a public facade of independence, the political wishes of the government are invariably translated in one form or another to the decision-making process. Formal methods exist in legislation, by which the government can direct the UK agencies, and these have been used, if infrequently: for example, in 1979 the Conservative government issued revised guidelines to the agencies concerning industrial investment. Of greater significance is the government's control over sources of finance, which enables it not only to determine the agencies' overall level of funding but to emphasise the areas in which it would wish the agencies to concentrate their resources. As indicated in Chapter Six, the research suggests that control is likely to be of a more overt nature when organisations are active in areas of high political sensitivity, thus the close government supervision of the affairs of the IDB.

Yet, if in one sense, as demonstrated by the preceding comments, the UK agencies constitute 'recentralisation' rather than decentralisation of power, in another sense, they can develop a symbolic importance within the regions they represent. The then President of Plaid Cymru, Gwynfor Evans is quoted by Drucker and Brown as saying 'Until recently....Wales was not even acknowledged to be an entity for administrative and economic purposes. The progress which we have made during the last generation in this direction has given us an administration which is based for the most part on the national community and increasingly this community is the basis for economic organisation, as with the WDA'[32].

Regardless of the centralised process of government to which they were linked on their establishment, the UK agencies joined the lengthening line of institutions which, based as they were on Scotland, Wales, and Northern Ireland, strengthened the sense of national distinctiveness. The feeling was neatly summed up in a cartoon in the SDA's promotional journal, which featured a cartoon in which a Scottish lion considered a news paper headline expressing the disappointment of the English West Midlands at not being granted a development agency like the Scottish Development Agency, and commented 'But then, its a region, not a nation'[33]. Drucker and Brown conclude that the creation of the SDA and WDA was 'arguably the most important step forward devolution had ever taken....Between them these two development agencies will make the running for ever more power and money to be given to their tasks of improving the Scottish and Welsh industrial bases...Their work will serve further to heighten Scots' and Welshmen's sense that the government that matters to them is Scottish and Welsh government. Their very existence will keep the argument for devolution alive no matter what happens to the Nationalist electoral threat'[34].

Lessons for UK and Benelux agencies

In the course of interviews carried out for the purposes of this research, it was noted that there was little awareness on the part of staff of the UK or Benelux agencies of the practices of agencies operating outside their own countries. Representatives of the UK agencies meet together twice a year for discussion, but as far as relations across national boundaries are concerned, instincts of competition and suspicion tend to prevail. This is unfortunate, because it would appear from this research that agencies in these countries have much to learn from each other.

In the case of the UK agencies, there is a need to study the governing structures of their Belgian counterparts, to which have been incorporated methods of representation of the communities which the agencies serve, without the disruption or political controversy which UK agencies fear would result from an opening-up of their structures to local control. A constant theme of this research as it relates to the UK agencies has been their deficiencies both in terms of internal corporate planning and also planning in the wider regional context. In this respect, it is important to note that the Belgian agencies are closely involved with the planning framework of their respective regions, carrying out surveys to discern the social and economic needs of the region, transmitting these needs to the regional government, and then assisting at local level in the practical implementation of the completed plan. One of the great virtues of the UK agencies' present role is the manner in which they draw together various functions which were previously carried out by disparate government organisations. However, much of the advantage thus derived is wasted by a lack of co-ordination between the agencies and other statutory bodies within the region, such as the local authorities, and the Manpower Services Commission.

It has, for example, been noted in this study that relations between regional development agencies and local authorities in the UK tend to be of an 'ad hoc' nature, dependent upon informal contacts, and that they consequently vary from one authority to another. Though three of the agencies were established shortly after the local government reorganisation of 1974, the legislation establishing them did not define their relationships with the new authorities. Reorganisation also presented difficulties for the HIDB in the sphere of planning. As Bryan McGregor comments on the establishment of the Highland Regional Council, and its effect on the HIDB, 'under the old system the Board had a legitimate planning function, at least an advisory and co-ordinating role. This was now undermined'[35]. More recently, an atmosphere of uncertainty about the scope of local authority industrial development initiatives was created by the government's abolition of the metropolitan counties, which had been most active in this field, and the recommendations of the Burns Committee, which argued that local authorities should not involve themselves directly in economic intervention, but should confine themselves to infrastructural improvements. Indeed, it has been argued in some quarters that UK regional development agencies have been used 'to block the emergency role of local authorities'[36]. A more widely held view of the position was expressed by Mawson and Miller in a review of local authority economic initiatives, when commenting that 'By the early 1980's, the proliferation of economic development agencies and organisations, both within Central Government and at the local level began to pose questions about duplication and overlap of activities and demonstrated a lack of co-ordination and overall direction in public policy'[37].

In contrast, in Belgium, relations between the SDRW and the "intercommunales" (federations of local authorities, or communes) were described by Schmit and Walker, in Yuill's study of European regional development agencies, as 'constant and harmonious'[38]. These relations received formal expression through the 'conseil technique' or technical council within the SDRW which consisted of representatives from the SDRW and the intercommunales.

Similarly, the SDRB is represented on each of the 'commissions de concertation' or planning committees established in each of the 19 communes in Brussels in 1976, which have responsibility for the planning of local economic development.

Without the introduction of a unified planning framework involving the agencies, the establishment of development agencies in the English regions, a proposal being widely canvassed in political circles at the time of writing, would only be counter-productive. The Labour, Liberal and Social Democratic Parties are all committed to the establishment of development agencies in at least some of the English regions, and the ideas has been supported by Conservative ex-Cabinet Ministers Michael Heseltine and Leon Brittan.

Given the general conclusion of this research, that the regional development agency concept represents an important contribution to regional economic development, it might be expected to follow from this that agencies of this type should be established in England.

There are, however, several factors which must be taken into consideration by proponents of regional development agencies for the English regions. The first, mentioned above, is the present lack of a planning structure in which agencies can operate. We have already seen examples of the wasteful competition that might take place between regional development agencies in Northern Ireland, England, Scotland and Wales in such incidents as the reported attempt by the WDA to persuade a high-technology project developed by the GLEB to relocate in Wales, and the transfer of electronics companies from the depressed West Midlands of England to central Scotland, at the behest of the SDA. Secondly, it should be recognised that the existing agencies have a political as well as economic significance. This has been described in a previous chapter in relation to their creation, which was in part a reaction to regional, and in the case of the SDA and WDA, specifically nationalist pressures, and a recognition of the special problems of these areas. If regional development agencies were established in the English regions then not only might the economic effect in terms of increased competition for finite resources be detrimental to Scotland, Wales and Northern Ireland, so might political opinion in these regions be adversely affected, in that it might be felt that their special problems were no longer being adequately dealt with in the framework of a unitary British state.

Thirdly, the distinctive political factors which make the existing regional development agencies more than mere economic instruments of central government may also contribute to their effectiveness in a way that could not be duplicated outside the areas in which they presently operate. In an article on the possible establishment of regional development agencies in England, Moore and Booth take up this point when they state that 'the United Kingdom is not a uniform political system. Scotland is different. There is no English equivalent of the Scottish Office'(or for that matter the Welsh or Northern Ireland Offices)' which can bring together a whole range of governmental responsibilities under one minister. In England, who would regional development agencies answer to? The Department of Environment, the Department of Trade and Industry, or the Treasury?'[39] Moore and Booth develop their point in relation to Scotland, where such success as the SDA is perceived to have had has been widely attributed to a consensus of opinion on matters concerning the Scottish economy, crossing traditional boundaries between interest-groups and political parties. They argue that this consensus is born of uniquely Scottish factors which they identify as 'cultural catalyst', a sense of national identity over-riding class differences, 'elite networks', the community of interest existing between industrial, commercial, financial and political elites in Scotland (which have come publicly to the fore over issues such as the closure of the BSC Gartcosh Steelworks, and the take-over battle for the Distillers Company) and 'instrumental institutions', the 'unique matrix of Scottish political and financial institutions', which underpins the sense of national identity and provides the means for integrated operations[40], These arguments show that there is no simple institutional formula for the regeneration of the English regions in the establishment of their own regional development agencies.

Perhaps a more profitable example for the English regions to follow would be that of the municipal enterprise boards, which despite the hostility of national government, have carried out pioneering economic development work in a number of depressed English regions, such as Merseyside, the West Midlands and West Yorkshire. They have been only briefly considered in the course of this research because they have operated up till now on a local rather than a regional scale, but following the demise of their original benefactors, the metropolitan counties, in April 1986, some are expanding their activities. Channelling investment capital from pension funds and local authority rates (money provided under section 137 of the Local Government Act), the boards have, through the use of planning agreements with companies in which they invest which lay down production and employment targets, created a considerable number of long-term jobs at comparatively little cost. It was noted in the literature survey that both Yuill, and Mawson and Miller linked the establishment of regional development agencies to a concentration of government regional aid on the support of local industry within the region[41]. This approach is presently more evident within the work of enterprise boards. The development agencies would be well advised to learn from these indigenous examples, as well as those from overseas.

Of fundamental importance for the Benelux countries, particularly those based in Belgium, is the need to expand their activities through the provision of adequate government funding. Operating with scant financial and human resources, the representatives of Benelux agencies interviewed for this study, clearly envied the size of grant aid that the British government provides its agencies. Only once these resources are acquired will the agencies be capable of operating the comprehensive range of functions which their counterparts do. In this respect, the creation of separate regional investment companies in Belgium was a retrograde step, because it deprived the Belgian regional agencies of the ability to offer integrated services from one source. In the UK, considerable strides have been made over the past ten years toward reducing the number of different organisations involved in the industrial development process, and progress has been most marked in those areas that are served by regional development agencies. The concentration of these functions within a smaller number of bodies may facilitate, as a by-product, greater central control of that development process, and this is a factor which may explain the dominance of the opposite tendency in the neofederalist Belgian political system. However, as it has been indicated above that bodies such as the regional investment companies do not appear to be significantly different in their system of accountability than the regional development agencies, it may be that economic advantage is being sacrificed without substantial gains in local control. It is the conclusion of this research that a more beneficial step would be the formal absorption of the existing agencies into the structure of the investment companies.

CHAPTER NINE - REFERENCES

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